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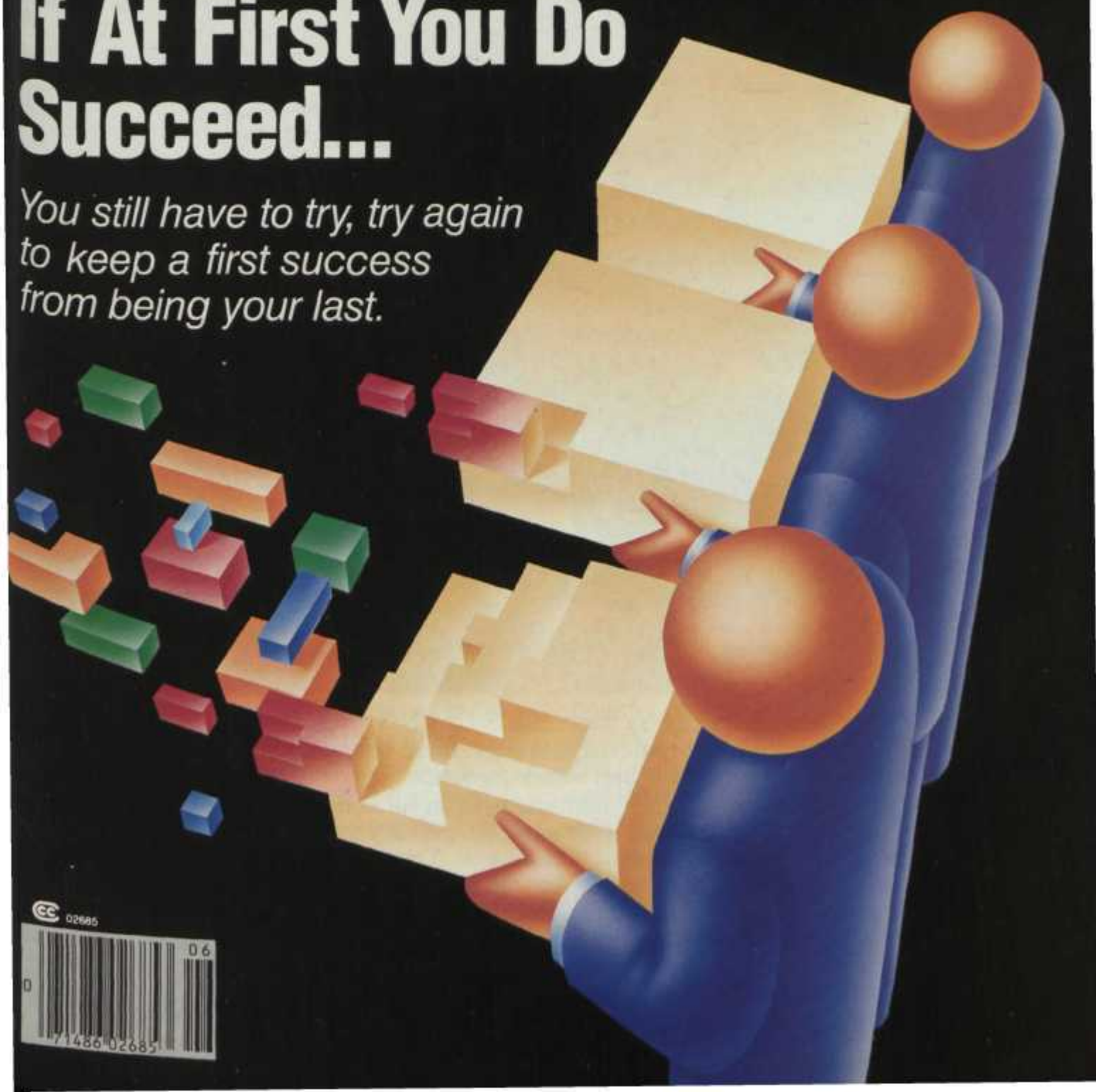
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Nation's Business

Published by the U.S. Chamber of Commerce Washington, D.C.

MANAGING YOUR BUSINESS



PHOTO: JAMES COOK

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PHOTO: DAVID STOECKLEIN—THE STOCK MARKET

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COMMENTARY

Letters

Unsung Heroes

I found Ripley Hotch's commentary "Surviving A Start-Up With Sleeves Rolled Up" [April] both touching and timely.

If you ever want a blow-by-blow description of how to do it the hard way, I am your person.

I truly believed that if I had the smarts, the drive and the ideas, I would do well. Did I know that hiring a typist who could type and think at the same time would be almost impossible?

At first we used temps. One showed up in bright pink "footies" every day because she couldn't find shoes that didn't hurt her feet. Another used to find every possible excuse to leave her desk and saunter past a group of men-



ILLUSTRATION: ANNIE LUNSFORD

acing-looking construction workers at the excavation site next door. A third was so deeply into astrology that she ran into my office every few minutes with predictions of timely events soon to happen from readings off the typing basket. I found myself asking her if it was a good day to pitch a new client.

After the long, exasperating parade was over, we hired full time our wonderful talented typist who was pregnant (the longest nine months in history). Then, after this prize *finally* found a good babysitter and as soon as we started to roll, my husband was offered a promotion and relocation.

Since leaving Chicago, one of the persons I have missed the most—and continue to do so every day—is that one smart lady who handled everything with ease and humor.

Anyone who owns a small business—especially one that requires constant communication—and has a great typist who understands the business should walk in tomorrow morning bearing a bouquet of flowers for him or her.

I wish Mr. Hotch the best of luck with his new venture. From one hero to another.

P.S. I typed this myself.

Elaine Levy
Elaine Levy and Associates
Madison, Conn.

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Walton's Ways

Hurray for Sam Walton of Wal-Mart Stores ["Walton's Mountain," April]. It's about time U.S. businesses started to think about taking care of American workers. After all, in the end they are the American consumers.

M.P. Lantz
Lakewood, Colo.

My company's commitment to manufacturing in the United States and creating American jobs has parallels to Sam Walton's "Buy American" program: Three years ago we decided to transfer manufacturing of our electronic wall-stud finder, Studsensor, from Taiwan to the United States.

As a result, the number of our U.S. employees has increased from 25 to over 100. And we have refined and improved Studsensor so our defective-return rate is less than 1 percent.

We realized higher manufacturing and inflationary costs would be inherent in our commitment to U.S. manufacturing, so we sought alternatives to offset costs without passing increases on to retailers and consumers. Studsensor is still priced as it was when it was introduced in 1981.

Judy Allen
Advertising/Marketing Manager
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Letters

some to be the biggest threat to the health of the small-business person in the Midwest. His Wal-Mart stores are the main reason for all the empty buildings in the downtown areas of many communities.

Walton is the success he is today because of his ability to acquire property tax-free. Many communities desperate for new businesses give Walton property-tax exemptions or financing through industrial-revenue bonds to encourage him to come to their towns with new jobs. This issues a death sentence to the small merchant who cannot compete with Walton's prices.

Mike Wheeler
El Dorado, Kan.

Financing Failure

April's "Small Business Update" reports a 42.9 percent increase in farm failures. You attribute this increase to the introduction of Chapter 12 of the bankruptcy code.

You fail to get to the basic cause of these bankruptcies, which is the Farmer's Home Administration (FmHA). They lend money to almost anyone who wants to plant a crop. They have lent enough money in our area to cause a 12 percent overproduction in potatoes. This has reduced the value of the potato crop from about $60 million to $30 million.

This is a disaster for the farmers and for those of us in the farm-supply business.

James Kerns
Klamath Falls, Ore.

Shades Of Henry Ford

Regarding "Home, Sweet Modular Home" [Lessons of Leadership, April], it's obvious that Austin Guirlinger is quite successful, that he's "making the market" just as Henry Ford did with his Model T. In fact, the article states that Guirlinger wants "to do for housing what has been done for the automobile."

The article also states that "he won't change anything in his modules unless there is a compelling reason." Apparently a would-be customer's desire to purchase 200 units without ceiling lights in the bedrooms wasn't compelling enough.

Shades of Henry Ford! After he made the market he refused to listen to it. "You can have any color you want so long as it's black."

William J. Altier
Buckingham, Pa.

A Modest Request

[Here, in its entirety, is the most interesting request in our mail this month, from Hominy, Okla.]

Please! Send all available information.

The Magic Words

Sharon Nelton's article about stirring up the work force ["Motivating For Success," March] led her to a quote from the book *Effective Small Business Management*: "Motivation is excitement about work."

What is excitement about work, anyway?

To my mind, the job-motivation debate is best answered by Chris Gleason, a New York-area recognition specialist. "Every one of us will feel flat-out embarrassed if the boss tends to overpraise any job improvements," he says. "But there are also few of us who don't still recall the time the boss forgot to thank us for a job well done."

Joseph L. Grimm
Cherry Hill, N.J.

Narrow Your Search

Jon Pepper's article "Let Your PC Comb The Archives" [April] gives an excellent overview of information sources available to businesses. But I think more space is necessary to do the subject justice. The article glosses over the time needed to become proficient at finding truly useful information.

You must first know what you're looking for before you head off to find it. It is easy to drown in the profusion of information that results from an unfocused search. Few small-business people have the time it takes to create precise search strategies that will net low-cost, effective searches on NEXIS or other databases.

I am an advocate of making information easier to access. But just as business owners can handle their own accounts yet still need an accountant for specialized work, they may do well to seek the services of information brokers, libraries with search capabilities and the research departments of their advertising agencies. There are thousands of electronic databases available, each having its own nuances. Informa-

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COMMENTARY

Letters

tion specialists can tell you the likelihood of finding what you want or suggest an alternative, less expensive source for the information.
Susan M. Detwiler
Warsaw, Ind.

Federal Whipping Boy

I was disappointed to read in the February issue ["Congressional Alert"] that you endorse contracting out public-sector services.

I believe this practice would lead to higher, not lower, government spending.

First, the laws and Office of Management and Budget regulations governing the contracting-out procedures are biased. They do not fully consider administrative costs.

Second, the services received under such contracts are often inferior to those performed by government personnel.

Third, contracting out is an enjoy-now, pay-later scheme. Workers under such contracts often receive inferior pay and benefits compared with civil servants, particularly with respect to retirement.

In sum, contracting out represents yet another approach to avoiding program cuts that are required if the federal budget deficit is to be reduced. Once again, Congress and the executive branch have made civil service the whipping boy for their fiscal irresponsibility. And, once again, they have endorsed a cure for the budget deficit that is doomed to failure.

I believe I am qualified to comment on this subject. I spent eight years as a contract negotiator for two federal agencies and participated in contracting-out studies during that time.
Daniel G. Deacon
Wilkes-Barre, Pa.

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Small-Business Update

By Joan C. Szabo

Continued Growth Ahead

Continuing to shrug off the shock of October's stock-market decline, the longest peacetime economic expansion in the nation's history is expected to keep going into 1989.

The economic-forecasting unit of the U.S. Chamber of Commerce sees gross national product, which includes the value of all goods and services, expanding in this year's second quarter at the same 2.3 percent annual rate posted in the first quarter.

The third quarter is expected to show more strength, climbing to a 3.3 percent annual growth rate, and then growth in the final quarter of 1988 is expected to fall back a bit to a 3.0 percent annual rate.

Personal consumption, representing two thirds of GNP, rose in the first quarter of 1988 following a drop in the previous quarter. That growth was one of the key factors cited by economists who state that the gloomy predictions of a recession—or even a depression—in the wake of the market plunge last fall are being proved wrong.

Richard Rahn, vice president and chief economist of the Chamber, believes the economy can continue to grow and avoid a recession as long as government policy is supportive. He sets forth these prescriptions for preventing a recession:

- The Federal Reserve must increase the rate of money growth.
- The administration and the Congress must avoid any tax increase and must reduce the capital-gains tax rate.
- The President must announce that he will veto any spending bills, including continuing resolutions, that would not meet the Gramm-Rudman-Hollings deficit-reduction targets.
- The President must continue to stand against protectionist trade legislation.

Ringing In Better Sales

Against the background of generally improving economic forecasts, retailers expect to turn in a stronger performance during the second half of this year, according to a forecast by the National Retail Merchants Association. The New York-based trade group represents 50,000 individual department stores, mass-merchandising chains and independent retailers, most of them small or medium-sized businesses.



PHOTO: RON WATTS—WESTLIGHT

The record U.S. expansion is expected to keep factories humming in the months ahead.

Sales in general-merchandise and apparel specialty stores should strengthen from June onward, the association says, with final 1988 sales gains registering 6 percent over last year and the volume of goods sold increasing by nearly 2.75 percent.

Sales of nondurable goods, such as food, clothing and energy, are expected to show higher growth than sales of durables, such as automobiles.

ESOPs Pay Off

Small-business owners on the lookout for tax breaks should seriously consider setting up an Employee Stock Ownership Plan (ESOP) if they haven't already done so.

"Despite the attention to the promise of workers-as-owners of corporate America," says John Lahey, a tax partner at the Columbus, Ohio, law firm of Jones, Day, Reavis & Pogue, "the impetus to an ESOP is the substantial, and increasingly irreplaceable, tax benefits available to the owners of smaller private businesses."

An ESOP is a trust fund created by a company solely to buy the company's stock and pay out the benefits to accounts set up for employees. The plan uses bank loans to buy the stock and makes tax-deductible contributions to the ESOP to enable it to service the loans.

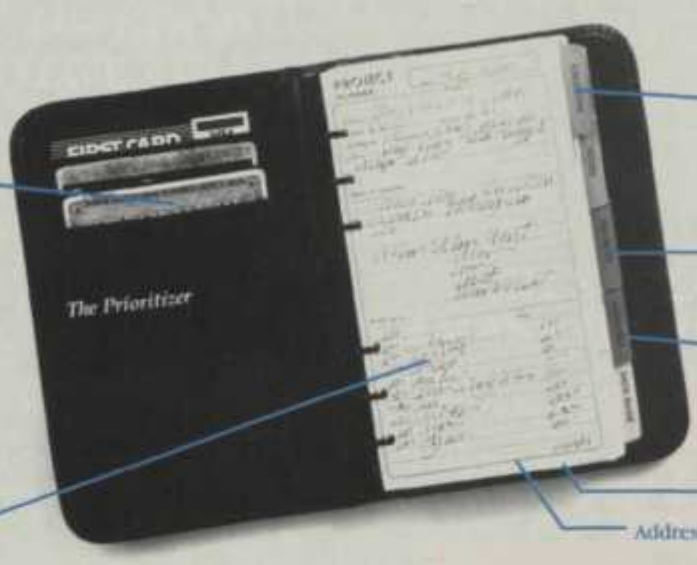
For an owner thinking about retirement, the most attractive ESOP benefits center on the sale of his stock and the consequences, says Lahey. If the owner has sold the ESOP at least 30 percent of the company's stock, he may defer state and federal taxes if he reinvests the proceeds in stocks or bonds of U.S. corporations.

In addition, the owner, subject to some limitations, can continue to control his company. The shares the owner sells to the ESOP are voting shares, but they are not actually owned by the employees individually. They are held for the benefit of the employees by an ESOP trustee who is selected by the owner.

Lahey notes that some firms are better suited to ESOPs than others. The

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Proposition 65's Chemical Spillover

The impact of California's Proposition 65, the Safe Drinking Water and Toxic Enforcement Act, is being felt in an increasing number of other states.

The proposition, approved by California voters last November through the state's initiative process, requires the governor to establish and keep up-to-date a list of more than 200 chemicals that "may cause cancer or birth defects."

The law requires that products containing such substances carry a warning label. And starting October 27, no detectable amounts of the first 29 chemicals that are placed on the list can be discharged into drinking-water supplies.

The environmentalist coalition that worked for passage of Proposition 65 has stated that it hopes to take the initiative across the country. At least 10 states currently have or formerly had similar proposals on their legislative agendas. "The essence of the legislation they are proposing in the other states is exactly like 65," says Tertia Armstrong, the U.S. Chamber of Commerce's associate manager for environment policy.

In addition, many businesses are wondering about their legal liabilities if they issue warnings and put such labels on products in California but not in other states.

Especially worrisome for companies is the act's "bounty hunter" provision. Anyone who pursues a private legal action can receive 25 percent of all civil or criminal penalties collected. Yet the "bounty hunter" does not have to show injury or even be an affected party. The result, says Armstrong, will be "staggering litigation costs and increased, if not prohibitive, liability-insurance costs."

Working For Taxes

The average American taxpayer had to work 126 days this year to earn enough to cover federal, state and local tax bills, says the Tax Foundation, a Washington-based nonprofit research group that calculates the yearly tax burden on U.S. citizens.

The average working American's tax liability for 1988 equals all of that worker's income from January 1 through May 5, which the foundation designated as "Tax Freedom Day" for this year. Last year it was May 4. The earliest Tax Freedom Day in this decade was April 28, 1984.

The foundation points out that, despite two major rounds of cuts in federal income taxes under the Reagan administration, the average American's tax burden has grown because of increases in Social Security taxes, higher state and local levies and the individual taxpayer's share of increases in business taxes.

The foundation points out that the costs of higher business taxes are ultimately borne by individuals.

One more note on Tax Freedom Day: When the Tax Foundation began its analysis in 1930, the tax cutoff came on February 13. NB

Quoteworthy

"The goal of tax policy should be a tax system that least impairs effective functioning of the market system, least impedes economic progress, erects the fewest roadblocks to allocating our capital and labor services efficiently, maximizes employment opportunities and productivity advances, and allows American businesses to compete effectively in the world marketplace.

"If we are to achieve that tax system, we must recognize that the fair share of the total tax load to be assigned to corporations is zero."
—Norman B. Ture, former Treasury undersecretary, in "Corporations' 'Fair Share' of Federal Taxes," a study that was conducted for the National Chamber Foundation, an affiliate of the U.S. Chamber of Commerce.

"I'd like to challenge the sincere and dedicated individuals who work for environmental causes to repudiate the more extreme and hostile voices in their movement and to try to work with us to raise the level of dialogue . . . There are some people for whom a love of the works of nature seems to engender a corresponding hatred of the works of man . . . These people need to realize that human technology and the products of our industry are what stand between us and the hostile elements, between us and constant hunger, between us and the ravages of disease and predation . . .

"I'm not sure what solutions we'll find to deal with all our environmental problems, but I'm sure of this: They will be provided by industry, they will be products of technology. Where else *can* they come from?"
—George M. Keller, chairman of the board and CEO, Chevron Corporation, in a speech to the California Manufacturers Association.

This Month's NB TIPS

Ten national management conferences designed to help those who own or operate small retail and service businesses gain a competitive edge for their companies are being planned for the coming months.

The gatherings are to be held in various cities across the country, and they are sponsored by the Small Business Administration and the Lotus Development Corporation.

For details on the conferences, call SBA's Office of Business Development, in Washington, (202) 653-6881.

"Simplified Employee Pensions: What Small Businesses Need to Know" is a free booklet from the Labor Department and the Small Business Administration. It provides information on SEPs, affordable retirement programs that small-business people can establish for themselves and their employees and which offer significant tax advantages with minimal administrative complexities and costs.

For a copy of the booklet, write SBA's Advocacy Office, 1441 L Street, N.W., Washington, D.C. 20416.

A host of practical tips on ways to obtain publicity for your product or service can be found in *Media Marketing: How to Get Your Name & Story in Print & on the Air.*

The 201-page book includes details on how to write successful news releases, how to create a successful news conference and how to get on television. The book is published by Harper & Row; the hardback is priced at $16.95, and the softback is $7.95.



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COVER STORY

If At First You Do Succeed

By Karen Berney

Your first product is a hit. Sales are high, profits are strong, and your employees are happy. So go ahead, celebrate. But don't let the merriment go to your head. It's a time to be elated, yet a time to be wary: Your company has given itself a tough act to follow.

"Success is a double-edged sword," says Jim Hozik, head of the emerging-business group at the accounting firm of Ernst & Whinney in Washington. "Just when you think you can do no wrong, you are most vulnerable."

Most new enterprises are built on a single product or service, and for many of them the biggest trap is counting on that one product or service for sustained, long-term growth.

These companies can be caught off guard when markets for their original offerings become saturated, when consumer tastes change, or when aggressive competitors win out. The entrepreneur can become so "wrapped up in the success of the moment" that he fails to anticipate and respond to threats to his market, says Kenneth Solomon, a managing partner in the Chicago office of the accounting firm of Laventhol & Horwath.

Companies that respond successfully use different tactics but wind up in the same strategic position—far enough from their original one-product base to reduce their vulnerability, yet close enough to build on an existing customer base. In short, they diversify, steering their firms into multiple lines of related businesses.

Don Harwell says that because the military proved to be a ready-made market for his firm's liquid-gas containers, he got complacent and failed to pursue other customers.

Nothing attracts competition like success.

No matter how long a lead you have, there will come a time when competitors start encroaching on your territory, says Solomon. Unless you are already into new products or markets—or both—offsetting the loss in market share will be a difficult struggle.

Consider what happened to Don Harwell, the owner of Cryenco, Inc., an Englewood, Colo., maker of air-tight, leak-proof vessels for liquid gases. He felt he had discovered a gold mine when large government contracts started rolling in for his cryogenic containers.

Powered by orders from the Department of Defense, Cryenco grew to more than 120 employees and $9 million in sales within eight years. Not once in that period did Cryenco lose a competitive bid.

"I became complacent," Harwell now

PHOTO: JAMES COOK



The future might look bright for your profitable venture, but if you're a one-product company, you could run into trouble unless you move into enterprises that complement your core success.



says. He had taken a big risk to start his business, was reasonably well off and felt no pressure to take the risks required to expand.

He was so complacent that he ignored the Defense Department's announced plans to increase competition among bidders. "Guys even visited our plant to explain the new policy," Harwell recalls. "I was so convinced I couldn't lose that I dismissed the warning signs."

Then, on Feb. 7, 1986, the Defense Department awarded a major contract for cryogenic vessels to a company with a lower bid, wiping out 85 percent of Cryenco's expected revenues for the year.

The shock was devastating to Harwell's company, yet his experience is not an isolated case. "I've seen many small businesses nearly go under because they were overdependent on one customer, supplier or distributor," says Hozik of Ernst & Whinney.

Harwell should have moved into commercial markets from the start to hedge against the cyclical nature of government business. But that analysis is easily made in hindsight, Hozik points out.

"We've been studying diversification for years," says Kathryn Harrigan, a professor of strategic management at the Columbia Business School, "and we still can't offer a formula for success." Nevertheless, Harrigan and her colleagues have formed some opinions.

Contrary to much thinking of the past decade, she and other experts now say that diversification through buying or expanding into a mix of unrelated businesses is too risky for all but a few entrepreneurs.

Accepted wisdom had been that a highly varied conglomerate could protect profits by using its component businesses to balance off the fluctuations in different markets. "But we now see that patchwork-quilt companies don't work," says Harrigan. Companies seldom succeed in running businesses in unfamiliar areas. "It's an uphill battle to break even, let alone make a profit," she says.

This is why large conglomerates are shedding their parts, Harrigan adds.

"We now argue that it is wiser to leverage your existing strengths—customer base, technology and manufacturing know-how," Harrigan says. Moreover, she and others who study the field say their evidence suggests that superior performance is achieved by companies with diversification strategies designed to complement their core activities.

When Don Harwell lost his Defense Department business, for example, he had no diversification plan, so he took the shortest route to diversification—he bought a competitor with a complementary technology.

For a small company, buying a competitor is a low-risk method of diversifying, says Harrigan. In essence, "you buy their customers."

Moreover, if the firm has a technology that you can apply to your own operation, you also derive the benefits of greater efficiency.

Harwell's acquisition, the Stainless Equipment Corporation, gave him a new product—enclosures for handling superconductive materials—and also gave him customers in the semiconductor manufacturing industry. In addition, the firm had first-rate material-handling equipment that Harwell used to lower the costs of making his cryogenic vessels.

"We concluded that we could add value by providing a service in addition to

Kevin Howe, CEO of Dac Software, is wary of success. As a result, he steered the firm into new products from the start and has built a $15 million business in three years.

PHOTO: CHARLES THATCHER—BLACK STAR



If At First You Do Succeed

Perri Ardman, cofounder of Maine Line, holds a mug that represents a new niche for the firm and an offshoot of its core business—alternative greeting cards.



PHOTO: DEAN ABRAMSON

a product," says Harwell. "We do not take specs any more," he explains. Instead, "we ascertain the customer's problem, design the specs ourselves, develop a prototype, test it and then build the vessel."

Fortunately, Harwell had $2 million in defense orders in the pipeline, enough to keep his company afloat while he worked out a diversification strategy.

But he still had to lay off 20 percent of his employees, increase the workweek to 45 hours and slash salaries by 10 percent.

Within nine months of being dealt the blow, Cryenco was back on its feet. Last year's revenues reached their pre-crisis level of $9 million, and Harwell expects to do 40 percent better in 1988. Medical equipment accounts for half of the firm's annual sales, defense business brings in 35 percent, and the semiconductor market accounts for the remaining 15 percent. The number of employees has grown to 140.

To keep Cryenco on the cutting edge of technology, Harwell recently set up a department with three scientists doing research and development. The new marketing director has experience in the semiconductor industry, and Harwell is considering setting up a board of directors to tap the expertise of seasoned executives in large corporations.

But of all the changes, says Harwell, the most significant is in his attitude. "I'm working on the assumption that it could happen again," he says. "I could be fired from any one of my businesses tomorrow."

While Harwell was caught off-guard by the hidden trap of sudden success with a single customer, an entrepreneur in Dallas was wary from the start when his product became a hit.

Kevin Howe, president and CEO of Dallas-based Dac Software, Inc., launched a $50 small-business software program called Dac-Easy Accounting in April, 1985, and within a year his sales had soared to $3.7 million. Three influential computer journals declared his product one of the best of the year. He had a right to feel ecstatic.

But Howe was not. If anything, his sudden success had a sobering effect.

Before launching Dac with five other partners, Howe had been vice president of new-product development at Taylor Publishing, a $60 million subsidiary of the Insilco Corporation. At Taylor, Howe had his share of winners and losers, all following a consistent pattern. "Every time I got overconfident about a new product, thinking this is a 'no-brainer,' I failed to do my homework," he says.

"Inevitably, that product never met our sales forecasts. However, when I was highly critical of a new venture, I thought the problem through backwards and forwards. That product always ended up exceeding our expectations."

That lesson, says Howe, taught him the importance of "not falling in love with your success." So when Dac-Easy started climbing to the top of the software charts, his wariness kicked in. "I didn't let myself feel too good," he recalls. "I didn't want to start making mistakes."

Indeed, he could not afford to. "I had always been conscious of the perils of being a one-trick pony," he says. "With the creation of Dac-Easy, the company had produced its one death-defying act. So the question was, what do we do next? How do we keep the momentum going?"

It was at this point, when Dac was riding high, that Howe began to consider a diversification strategy.

First, he analyzed the way that Dac had achieved such success. It was no mystery. The firm had squeezed an integrated accounting package onto one computer floppy disk and priced it at $50—the price that Howe calculated would generate enough volume to turn a profit. Then, using direct mail, he had targeted Dac-Easy to price-sensitive small businesses.

Underlying the product's development had been Dac's unique approach to innovation.

Most people view innovation as a rare gift for creating things, Howe says. "I see it as the discipline of asking the 'why' question."

A few years ago Howe and his partners had asked *why* accounting software was so expensive. Their conclusion: In the early days of the industry, leading vendors had decided that if the functions of accounting were placed on separate disks, each could be sold for $500 to $700.

"We said, 'Wait a minute. Why sell separate modules when everything can fit on one disk? And why price the package at $3,000 when it can be sold for $50?' "

But with his product priced at an unheard-of $50, Howe suspected that the 4,000 people a month buying Dac-Easy were doing so as much to satisfy their curiosity as to fill a software need. Still, that was a huge customer base to capitalize on. The key would be to keep those customers coming back to the well by offering them enhancements to Dac-Easy. That would be far easier and cheaper than attempting to create another hit—a feat Howe didn't think he could accomplish.

Thus, since releasing its flagship product in April, 1985, Dac has spun out three new Dac-Easy add-ons a year, including blank forms for printing invoices, checks, purchase orders and credit memos. Today, 40 percent of the firm's revenues come from repeat customers.

Dac-Easy Light, a $69.95 accounting

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IT'S SOBERING TO THINK THAT KIDS TAKE DRIVING MORE SERIOUSLY THAN SOME ADULTS.

package for the home and small office, is the firm's seventh offering. Its creation reveals how Dac continues to build on its established product.

Howe explains: " We asked ourselves and our customers [through a survey] why there was no low-cost home accounting product as popular as Dac-Easy. What we heard and confirmed was that existing programs practically required a degree in accounting to operate."

Dac-Easy was simple to learn, so it seemed reasonable to write a version for managing personal expenses. To attract home users, Dac would downplay the high-tech image of software and pitch the product like a commodity. Dac signed up former professional football quarterback rivals Terry Bradshaw and Roger Staubach to appear on the package and in ads that parody beer commercials.

The ads show Bradshaw and Staubach sparring over the merits of Dac-Easy Light "as less-filling accounting software for the home, office or both."

Since the release of Dac-Easy Light last December, more than 20,000 units have been shipped, close to the typical volume of best-selling software.

Because Howe began to diversify early in the game, he points to an array of products and more than 300,000 loyal business customers worldwide, and he says, "I think I'll be the last vendor in my industry to be hurt in a recession."

Howe expects to reach $15 million in revenues this year with a pretax profit margin of 40 percent. He hopes it will be a $22 million company by 1990, perhaps through acquisitions.

To date, Dac has financed its growth out of income, but capital for future expansion may come from Insilco Corporation, Howe's former employer and Dac's new owner as of last November.

Dac's other cofounders, who had not been active in day-to-day management for years, were itching to sell out, Howe explains. Insilco, a company Howe knew and respected, was the only buyer he would consider, he says. "We weren't on the block. We would be privately held today if Insilco had not agreed to buy us."

When that happened, Howe bought back 5 percent of Dac's stock and signed an agreement to remain as president and CEO for at least five years. However, he expects benefits beyond access to deep pockets. The 38-year-old entrepreneur feared he might be get-

Don't Get Tangled In Overgrowth

Second only to lack of capital as a fatal flaw for a promising young company is excessive confidence, says Ian MacMillan, director of the Sol S. Snider Entrepreneurial Center at the University of Pennsylvania.

Entrepreneurs who believe they have discovered the keys to the kingdom, he contends, start making "dumb decisions." Topping the list is diversification beyond their means. When that happens, as Byron Romig learned painfully, the result can be disastrous.

Bymac, Inc., an Anaheim, Calif., lessor of large elevators used at high-rise construction sites, wasn't a new company; it took from 1964 to 1980 to reach sales of $1 million, reports founder and owner Byron Romig. But from then on, revenues doubled annually, and in 1983 Romig began to diversify in order to accelerate growth and reduce the firm's dependence on one market.

Romig's plan: Rather than build and rent one type of elevator, Bymac would manufacture four elevators of varying sizes and distribute them to various industries across the country.

The plan was ambitious, Romig admits, "but I thought I could handle it. I was very enthusiastic, I had the drive."

To finance the $2 million expansion, Romig hoped to arrange a private placement of convertible debt. In the meantime, he hired 25 new factory workers, purchased new equipment and added a new level of middle managers to take responsibility for engineering, production and sales. But the private placement never materialized, forcing Romig to pledge everything he owned—company and personal assets—as collateral for a $1.5 million line of credit.

Then came the catastrophe. One of Romig's oldest and most trusted customers, accounting for 15 percent of the firm's annual sales, went bankrupt. Unable to collect from the customer, Bymac fell short of meeting its monthly obligations to the bank. The bank proceeded to tie up Bymac's payments to subcontractors. Quality started to slip.

Customers lost confidence, contracts were canceled, sales declined and in June, 1983, the bank foreclosed on Bymac. With a new loan, Romig bought back his company 10 months later. He



PHOTO: MARK RICHARDS—PICTURE GROUP

Byron Romig's elevator business has had its ups and downs.

resumed his original business—renting one type of construction elevator to local builders—and paid off the loan within three months. Sales currently are $3 million to $4 million a year.

Romig had an eminently sensible diversification plan but fell short on executing it, says Edmond P. Freiermuth, of Santa Monica, Calif., a consultant who steered Romig through Chapter 11 bankruptcy proceedings. "Like any true-hearted entrepreneur, Romig forged ahead despite the lack of financing," Freiermuth says. He leveraged his company and himself to the hilt.

Knowing what he knows now, Romig says he would still expand but do it step by step. His four-pronged strategy was too much for him to handle at once, he says. He adds that he should have taken more time to find the people most qualified to execute his plan.

Romig says he should have delayed diversifying until he had obtained a combination of debt and equity from multiple sources. "Maybe I did risk too much," he admits, but he thinks he would have had a much better shot at success "if I hadn't relied exclusively on debt and the services of one bank."

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ABOVE AND BEYOND℠

ting a bit too self-assured. "I wanted to have a parent looking over my shoulder," he says. "Now, if I don't meet my goals, there's more than money at stake; my credibility with peers is on the line too."

The need to diversify was a discovery that Perri Ardman made when she wanted to make her company grow and find new niches. She found her first niche nine years ago—in greeting cards for women who had come of age in the turbulent '60s. "What I saw were cards speaking in the voice of my parents," says the 45-year-old Ardman. "I wanted to create cards that would express the humor that had come out of my generation's subculture."

Ardman (along with a friend who has since departed to pursue other interests) founded Maine Line Company, in Rockport, Me., one of the first firms to gain a foothold in the market for alternative greeting cards. Last year sales reached $1 million and appeared likely to stay at that level unless Ardman took action. "The market has changed dramatically since I started," she says. "I'm fighting for shelf space along with 350 other small companies. To stay a force in the industry, I knew I'd have to do two things—diversify and increase distribution."

Mugs, key chains, plaques—Ardman saw these impulse gift items as naturals for Maine Line's designs. But well aware of her strengths and weaknesses, Ardman felt she didn't have the skills to lead her company into a new stage of growth. The manufacturing of mugs, for instance, would require doing business overseas—something Ardman knew nothing about. Import duties? Insurance? Quality control? "I didn't know where to start," she says.

"I saw other companies like mine try to get into manufacturing, and they were floundering," she says. "These were very good companies. If they couldn't pull it off, what reason did I have to think I could?"

Though capital was available and consultants were eager to help, Ardman decided against striking out on her own. She concluded she needed a partner, a company that could take charge of diversification, leaving her to concentrate on what she does best—composing the witty sayings that give her cards a distinctive ring. So last July, Ardman sold Maine Line to Russ Berrie & Company, a $230 million novelty-gift company in Oakland, N.J.

Maine Line has "great creative energy," says Neil Kops, president of Russ Berrie's special-markets division, but it "had peaked in terms of the number of stores it could penetrate." Like many niche players, the firm was forced to rely on an independent sales force that "had never given it the exposure it deserves," Kops claims.

Through Russ Berrie's extensive distribution network, Maine Line now has access to more than 9,500 retail outlets.

In addition to clout, Maine Line picked up the skills of an experienced diversifier. Russ Berrie arranged for an overseas plant to make the firm's first gift item—mugs, which are to be previewed in test markets before being sold nationwide. "Advance market research is critical in this industry," says Kops, "but something Maine Line never could have afforded on its own."

By manufacturing its cards in Russ Berrie's production facility, Maine Line also stands to lower its costs and increase profits. That will enable Ardman to attract higher-quality artists and free-lance writers for her new card collection.

Like other entrepreneurial men and women who do not let success lure them into a false sense of security, Ardman knows she must diversify to survive—and that as her firm branches out, she must keep it tied to its roots.

The same kind of strategy could reduce the risks of single-product success for any entrepreneurs who are willing to be as self-critical as they are self-confident about their business abilities. **NB**

To order reprints of this article, see page 62.

Advice From A Businessman Who Has Diversified

Since launching Marketing Resources, Inc., six years ago, Frank G. Weyforth, Jr., has led his company through three rounds of diversification. Today the Kansas City firm is a $70 million operation made up of three subsidiaries specializing in typesetting, market research and advertising. Now steering his company into the auto-repair business—a field in which the firm has considerable expertise—Weyforth has a few pointers for companies considering diversification:

1. Be alert to your customers' needs, and fill them.
2. Do research first to learn the facts.
3. Stay in areas where you have in-house expertise.
4. Assign experts in the field to run the new activity.
5. Be careful not to start too many different things too fast.
6. To be safe, always forecast sales low and expenses high.
7. Have a cash reserve on hand to be able to regroup for success. (Weyforth says he sets aside funds equivalent to 50 percent of the first year's budget for a new venture, knowing it will be needed for the unexpected.)
8. Don't be afraid to bail out if you're wrong.
9. Trust your instincts.



PHOTO: CHUCK KNEYSE—BLACK STAR

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(All Times Eastern)	1st ½ hr	2nd ½ hr	3rd ½ hr	4th ½ hr
Top Business News	6:30	7:00	7:30	8:00
Financial News	6:35	7:05	7:35	8:05
Small Business News	6:40	7:10	7:40	8:10
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
Internat'l Business Line		7:25		

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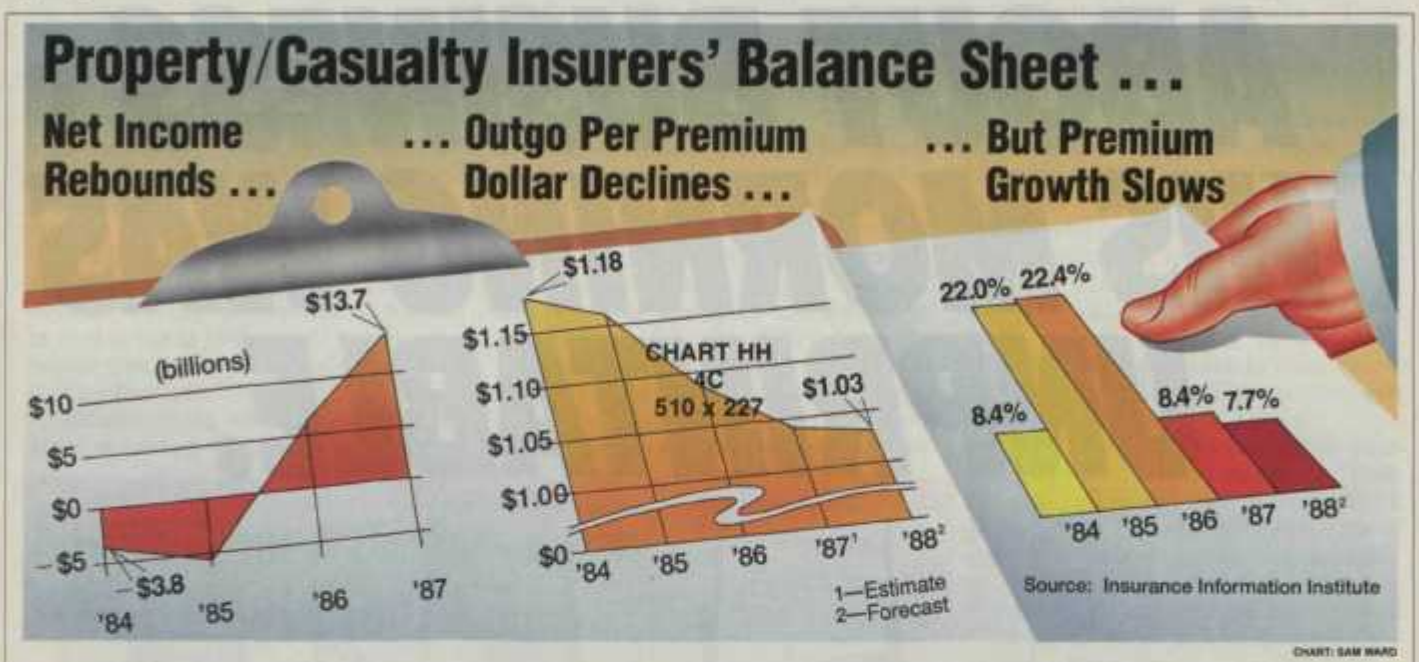
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A Riskier Year For Insurers

Insurers are cutting prices to compete for market share, but some types of liability coverage are hard to find.

By Roger Thompson



Three years ago the property/casualty insurance industry took a bath in red ink, reporting its worst financial losses ever. To restore profits, insurers raised prices and reduced coverage in several areas.

A dramatic turnaround ensued. Property/casualty insurers turned a $6 billion profit in 1986 and a record $13.7 billion profit last year, compared with a $5.3 billion loss in 1985. But even before the ink dried on buoyant end-of-the-year earnings reports, insurers had begun to worry about another downward slide in profitability.

And for good reason.

Historically when premiums are high and profits roll in, insurers cut prices and compete for market share. That's what began to happen in mid-1987, when industry profitability apparently peaked.

Since then brokers report rate reductions of 15 to 40 percent for property risk coverage and from 10 to 30 percent for general liability risks, according to *Business Insurance*, a weekly industry publication. Availability is no longer a major issue, insurers say.

But even with the market "softening," costs remain high compared with those of just a few years ago. And not all lines of insurance have benefited. Certain types of liability insurance, such as pollution hazards and medical malpractice, are difficult to secure at any price.

After two profitable years, some industry analysts now worry about an outbreak of cutthroat competition similar to the price war that raged between 1979 and 1984. The industry's high degree of fragmentation tends to boost competitive pressures. Most of the 3,555 companies that sell property/casualty insurance are niche players in overlapping markets.

But the consensus forecast is for moderation in price reductions, in large part because other problems on the horizon will act as a brake on destructive price competition.

Even without lowering prices, insurers have taken big financial hits from tax reform and volatility on Wall Street.

The stock market's drop last October 19 cut the common-stock portfolios held by property/casualty insurers an estimated $9 billion. A decline in holdings in turn reduces the amount of coverage the industry is able to offer, causing insurers to be more conservative in underwriting and pricing.

Of greater concern is the cash squeeze brought on by the Tax Reform Act of 1986, the first major revision of the industry's tax structure since 1921. It substantially increased the industry's tax liability. Estimated tax payments for 1987 totaled $3.3 billion, compared to a $600 million tax credit in 1986.

Insurance industry analysts also see another problem ahead. Total premiums increased by only 8.4 percent in 1987, compared with robust growth rates of 22 percent in each of the two previous years. Analysts fear that the slowdown in premium growth indicates that the two-year upward cycle in profitability already has peaked.

Profits depend on more than rising premiums, however. In fact, property/casualty insurers lost $9.8 billion last year on underwriting—premiums minus losses and expenses. The industry last turned an underwriting profit in 1978.

As in most recent years, investment income in 1987 offset underwriting losses and pushed property/casualty insurers into profitability. With investment income totaling $23.5 billion, net income—investment profits minus underwriting losses—equaled $13.7 billion.

Profitability isn't all that insurers have to worry about this year. In a surprise move on March 22, the state attorneys general in California, New York, Massachusetts, West Virginia, Alabama, Minnesota and Wisconsin filed an antitrust suit against Aetna Life & Casualty, Cigna, Allstate and Hartford Fire Insurance. Also named



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were the Insurance Services Office, a New York-based trade group, and several London-based reinsurance companies.

The suits allege that the companies conspired to restrain competition and manipulate the cost of general liability insurance during the liability crisis of 1985-1986.

Industry officials vehemently deny the charges. Insurers have blamed the liability crisis on rising jury awards in liability cases, a position supported by a March, 1987, Justice Department report.

An Antitrust Division investigation found no evidence that collusion in the insurance industry led to the crisis in liability insurance affordability and availability. Nonetheless, the report cited evidence of a direct link between reform in state laws governing the resolution of liability claims—so-called tort reform—and availability and affordability of liability insurance.

The top law-enforcement officials of the seven states that sued disagree. After their own two-year investigation, they blamed the liability crisis on "boycotts, threats, intimidation and other

Self-Insurance Booms

The liability crisis spurred strong business interest in "self-insurance," a trend that has continued even as the crisis in liability insurance has eased.

Fred S. James & Company, a New York-based broker, calculates that 27 percent of the $161 billion property/casualty market in 1987 came from nontraditional sources. By 1992, James estimates, one third of the market will be held by alternative sources.

Business interest in alternative insurance sources rose sharply during the liability crisis of 1985-1986, when rates soared and cancellations abruptly left many businesses bare. Congress smoothed the way for creation of alternatives with passage of the Liability Risk Retention Act of 1986.

The law permits businesses with similar risks to form their own product-liability companies—risk-retention groups—or to purchase insurance in groups.

By the end of 1987, 37 risk-retention groups and 196 purchasing groups had formed, according to *The Risk Retention Reporter*, a San Francisco-based newsletter.

Professional groups and businesses hit hard by the liability crisis rushed to take advantage of the new law (see chart).

A recent Commerce Department study assessing the impact of the 1986 act concluded: "If this activity continues, it is likely that the act will make a significant contribution to the solution of [availability and affordability] problems."

It seems clear that all this activity has made insurance more available. But affordability is a tougher issue. "There hasn't been a major break in prices," says Karen Cutts, editor of *The Risk Retention Reporter*. Nonetheless, Cutts notes that some experts foresee the formation of at least 1,000 such groups over the next several years.

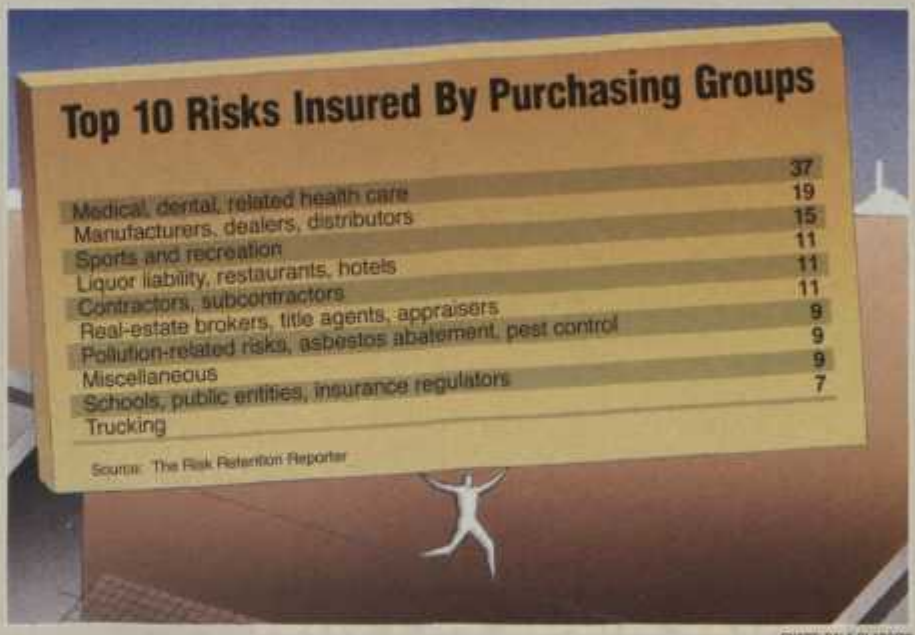


CHART: DALE GLASGOW

Most of the action, Cutts predicts, will be with purchasing groups because they are easier to set up. A risk-retention group must form as a liability-insurance company. Those insured also are the owners. Membership is limited to those engaged in similar businesses or activities.

By contrast, a purchasing group is not an insurance company; it consists of firms with similar or related liabilities, and it is formed to purchase liability insurance on a group basis. Most purchasing-group coverage has been written by a handful of new companies formed for the express purpose of handling such groups.

Despite their growing popularity, the risk-retention and purchasing-group approaches pose problems. The Commerce Department study points out that state insurance regulators are concerned that they do not have enough power under the 1986 act to protect insurance buyers from abusive practices. The act allows risk-retention and purchasing groups to register in one state and operate nationally without adhering to other states' rules.

The major concern with risk-retention groups, the study noted, is potential undercapitalization and the lack of guaranty funds to pay claims even if the company goes bankrupt.

But the study was more critical of purchasing groups. It found that "states lack sufficient information about purchasing-group insurers to be able to effectively protect against unsound financial practices and other commercial abuses."

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coercive conduct" by the defendants. While the 1945 McCarran-Ferguson Act provides insurers with limited immunity from federal antitrust laws, that immunity does not extend to the acts alleged in the suits.

Some industry observers dismiss the suits as election-year grandstanding by the state attorneys general. Others fear the worst. The suits could take years to settle in the courts. But long before that, they could spur efforts to end the industry's exemption from the McCarran-Ferguson Act. This would greatly diminish the power of the Insurance Services Office, which provides rate-making, policy forms and statistical services to all property/casualty insurers.

The suits also could lead to tighter state regulation of insurance industry rates and terms of coverage.

Any changes that might grow out of the lawsuits would occur in an industry in which major restructuring already is under way. The liability crisis forced many businesses to help themselves. Before the crisis, about one quarter of the property/casualty market was handled by "self-insurance," various methods of securing insurance outside traditional markets. Now the figure stands at an estimated one third. And some analysts expect it to hit one half by the mid-1990s. (See box on Page 24.)

For their part, insurers have fought hard on the state level for tort reforms that would curb excessive awards. Reforms make settlements of claims more predictable, thereby helping to hold down insurance prices and retain business customers. Over the past two years, more than 30 states have enacted some type of tort reform.

At the federal level, the insurance industry is supporting a bill that, for the first time, would establish a national product-liability standard. In spite of much official optimism about the bill's chances for passage, it seems now to have become bogged down in a dispute over whether it would lower liability-insurance rates for business. If not, some congressmen want to know why. And they are proposing a controversial amendment that would require the federal government to collect and analyze insurance data on the impact of tort reform on rates. The industry is opposed to such federal intervention.

Given the long list of problems facing the industry, it may be a long time before property/casualty insurers have another year as upbeat as 1987. NB

Paring Your Premium

Many businesses tend to buy more property/casualty insurance than they need, says risk management consultant Brady Young.

It's insurance-renewal time and you're looking for better service and prices on your policies. What do you do?

If you waited until the renewal notice showed up in the mailbox, it's already too late to do much but pay up. You should have started well before renewal to get competitive bids in hand. It takes about 60 days to process the paperwork on a new property/casualty policy, says Brady Young, a consultant with Tillinghast, a risk-management firm based in Darien, Conn.

Young has some useful advice for getting the most out of your business-insurance dollar the next time the opportunity arises.

First, know your risks and make your insurance purchases accordingly. Do you really need $1 million in liability insurance? What about your deductible? Is it too low? What kind of policy do you need—broad or narrow?

Many small-business owners tend to overinsure. Says Young: "You should be buying insurance where your threshold of pain is." For example, if you have a small business and your threshold is $1,000, go with a deductible of $1,000.

Once you know precisely what kind of coverage you need, conduct a preliminary screening of 10 agents. Find out which insurance companies they represent, what experience the staff offers



PHOTO: T. MICHAEL KEZA

and what services they perform. Ask for references and check them.

Do the same with "direct writers," agents who represent single companies like Allstate or State Farm. These companies built their reputations on personal lines of insurance such as auto policies and homeowners' coverage. But increasingly they are expanding into business insurance.

It shouldn't be difficult to cut the field of candidates to three or four finalists. Now give them all the same coverage specifications and ask for a price. It is important that each agent work with the same specifications. This enables you to make direct comparisons.

Expect to answer a lot of questions and supply accurate, detailed answers. The insurance agent and the underwriter who works for the insurance company preparing your policy will need to know a lot about your operations. Unfortunately, many small businesses maintain very poor records on insurable losses and expenses, says Young.

"If underwriters don't have all the information they need, they assume the worst," says Young. Detailed information gives underwriters the impression that a business is attuned to risk management. In fact, accurate recordkeeping makes business owners more sensitive to loss prevention.

Once you have a bid in hand, check to see how your various risks are classified. Rates are determined on these classifications. Frequently they are wrong, says Young.

Obviously, shopping around for a better agent or a cheaper premium can be time-consuming. Young suggests doing it only once every three years. But it can be worth the effort.

Says Young: "A lot of what I'm saying places more responsibility and more work on the business owners. If they want to save money, they've got to get involved in the process."



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Going Public Means Baring All

Taking your company public may bring growth—and pay dirt—but be ready for risks, revelations and regular reports to the SEC.

By James Greiff



PHOTO: MANUELLO PAGANELLO—WOODFIN CAMP

Jiffy Lube's Jim Hindman warns that going public isn't painless, but it can be well worth it: His firm has grown over 110-fold since 1979.

Like the old pop song's girl in the yellow polka-dot bikini, a company that sells stock to the public for the first time can't help revealing a lot.

"You really do have to strip yourself naked," says Paul Simmonds, research manager of the Institute for Econometric Research, in Fort Lauderdale, Fla. "You have to disclose everything about yourself, from the very beginning, and open your records for all the world to see."

But the advantages to the corporation from doffing its self-protective duds often far outweigh the business owner's pangs of modesty and instinct for privacy. Going public is the quickest, surest way to raise money to fuel rapid growth.

Without public stock offerings, many companies that now are household names might have remained small enterprises. Baltimore-based Jiffy Lube International, Inc., "would have stopped growing and would have been a regional firm," says Jim Hindman, president and chief executive officer. Taking the quick-oil-change operation public, he says, "was absolutely the key element" to building a small start-up firm of 7 outlets in 1979 to 780 today.

Selling stock to raise additional investment capital is only part of the rationale for taking a firm public, however. In many cases, the company founder or the original backers can sell all or part of their stake, thus recouping investments that are often measured in time, toil, sweat and money. It's probably the most legitimate way to strike pay dirt overnight.

Of course, going public is not without risks. Something embarrassing could be uncovered during the mandatory disclosure process, or the founders' control of the company could be diminished or undermined. Under certain conditions, public companies are susceptible to hostile takeover bids. Concentration of stock in the hands of one or a few trusted private investors can be an impregnable defense to such bids.

In some situations, however, going public can block a takeover. The Pulitzer Publishing Company, owner of a chain of newspaper and broadcast properties, went public to *avert* a hostile-takeover fight. The dozen or so third- and fourth-generation heirs to the publishing firm founded by newspaper magnate Joseph Pulitzer wanted money for their shares, which could be bought and sold only by the principals in the St. Louis-based company. With no public market for the stock, some family members decided they could realize value by forcing the firm into the hands of a hostile buyer, Michigan real-estate developer A. Alfred Taubman. Eventually, the brothers Joseph Pulitzer, Jr., and Michael Pulitzer and their cousin David E. Moore bought out Taubman and their relatives, and they made a public stock offering in September, 1986, to help pay off $184 million in debt.

The road to becoming a public company is fraught with uncertainty, and much preparation for entering the marketplace is concerned with minimizing chance. Clearly, though, some events can't be foreseen, such as the stock-market crash last October.

Since stocks plunged, the proposition of taking new stock issues to the market has lost luster. "It's a nonexistent market," says Sid Dorr, a stock trader with the Atlanta-based brokerage firm Robinson-Humphrey Company.

In 1987 there were 619 initial public offerings of corporate securities, according to the Institute for Econometric Research. Not a bad year, but not the best; in 1986 there were 812. Yet in 1987 more money was raised—$22.09 billion—through new issues, topping the previous record set the year before of $21.4 billion.

Every month before the crash, dozens of companies went public. In the heady days of June, 1987, there were 75 new offerings. By November, malaise had taken over Wall Street, and only 12 new stock issues hit the market that month; in December there were 11.

Business people such as Ed Brown, chairman, president and chief executive officer of Bulldog Trucking, Inc., in Carnesville, Ga., know well how the biggest stock collapse in history affected the market for new public stock offerings.

On October 16, Brown's company, which specializes in Japanese-style just-in-time deliveries, registered with the Securities and Exchange Commission (SEC) to sell 1.7 million shares at $12 to $14 a share. "Of course," he says,

James Greiff is a St. Petersburg-based free-lance writer who specializes in writing about public companies.



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Going Public Means Baring All

Timing is everything, as Ed Brown of Bulldog Trucking well knows. Bulldog registered with the SEC just three days before "Black Monday." (Brown hopes to try again this year.)



PHOTO: T. MICHAEL KEZA

"Monday (October 19) was what I think they call Black Monday now." Bulldog Trucking's offering was postponed, although Brown says he hopes to try again this year. He says his company needs additional capital to sustain the 100 percent growth rate of last year, when it went to $30 million in sales from $15 million in 1986.

If going public is in some ways analogous to baring all, in other ways it is far more complex. Accountants, lawyers and investment bankers enter the act. As long as shares remain in the hands of the investing public, the SEC demands a steady stream of reports, updates and disclosures.

How arduous it is to go public depends on perspective. "From a time point of view and from an emotional-energy point of view, the process is a very difficult one," says Jiffy Lube's Hindman. "When those underwriters put their name on it, they want to make sure they have all the facts."

But for every business owner like Hindman there are others like George Kadonada, chairman of U.S. Facilities Corporation, a small insurance company in Costa Mesa, Calif., that raised $24 million in a public offering in 1986. Unlike Hindman, Kadonada found that the reporting requirements of going public were not particularly onerous. Insurance is a highly regulated industry, with each state in which a firm operates requiring compliance with some type of code, he says. "We were used to reporting to a variety of regulatory agencies. From a reporting standpoint, it was not an overwhelming burden."

Other CEOs say they knew what to expect because they had been there. When Joseph M. Segel went public with his Philadelphia-based TV-retailing company, QVC Network, Inc., he knew the process because, he says, "I had done it before." In the 1970s, Segel started Franklin Mint Corporation, a retailer of collectibles, and took it public.

Michael Pulitzer, president of Pulitzer Publishing, says he too was well-prepared for going public. During the takeover fight with Taubman, he says, he went through a boardroom "crash course in corporate law and public finance. By the time we went public we were pretty well blooded."

Other entrepreneurs seem downright nonchalant about the entire matter. Martin Birritella, cofounder and CEO of RYKA Corporation, a small, athletic-shoe company in Weymouth, Mass., says that coping with SEC filings and dealing with investment bankers has been pain-free so far. "The disclosure requirements," he says, "aren't a problem if you have a great chief financial officer."

The federal statute that governs public offerings is the Securities Act of

Over-The-Counter: Out Of The Shadows

There are two myths about the over-the-counter (OTC) markets: that only small companies are listed, and that the stocks traded perform lamely compared with the big-name issues on the New York and American stock exchanges.

Not so, says Joseph R. Hardiman, chairman of the National Association of Securities Dealers (NASD), based in Washington. Moreover, Hardiman says, the OTC markets probably represent the future of the securities industry, when information—not location on the floor of the New York Stock Exchange—will be valued above all else.

"Our central trading floor is the computer," he says. Computer terminals at 750 locations nationwide display information about trading activity. These computers are linked to a central computer in Trumbull, Conn., constituting the National Association of Securities Dealers Automated Quotations system, better known as NASDAQ.

To be sure, the OTC market is home to thousands of small, relatively young companies that have recently gone public. This is because of NASDAQ's admission requirements.

A firm does not have to have a long history of operating performance or a megabucks-income statement. In addition to complying with federal securities regulations, it need only have $2 million in assets, $1 million in stockholders' equity and 100,000 shares in the hands of 300 or more outside investors.

Surprisingly, though, many of the 4,700 companies on the OTC market might easily qualify for listing on the New York Stock Exchange. Hardiman believes they remain in the NASDAQ system because of its absence of trading "specialists."

Trading activity on the exchanges is dominated by the trader who is called a specialist. The specialist promises he always will buy or sell a particular stock for the right price when everybody else decides to sit on the sidelines or wants to bail out. For the privilege of this monopoly, the specialist pays a heavy fee to the exchange. But the specialist

Experience can be the best guide through the public-offering process. Joseph Segel learned the ropes when he took the Franklin Mint Corporation public in 1970. So when his QVC Network, a TV-shopping enterprise, took the plunge in 1986, Segel knew what to do. He says those thinking of going public should wait for a bull market.



PHOTO: JOHN McGRAIL

1933. This law, passed in the aftermath of the stock-market crash of 1929, is designed to prevent "misrepresentation, deceit and fraud" in the sales of securities, says Chiles Larson, a spokesman for the SEC.

In short, the SEC wants a full description of the company, its operations and the securities being offered. The regulators also want a detailed financial statement certified by an independent accountant. And the SEC also wants to know the backgrounds of those who are in charge. The SEC, Larson says, doesn't pass judgment on what is disclosed, only on whether enough has been revealed.

Before the campaign to go public reaches this stage, however, much groundwork must be laid. Usually it starts with bringing in an investment banker, who will learn all about the company. Two types of questions are asked: Is the business viable and capable of growing, and will the institutional investment community buy the shares?

If the investment banker emerges with thumbs up, the next step is drafting a prospectus, the document that provides most of the information that the SEC and professional investors will need.

Typically, the cover of the prospectus given to the SEC will state that the material inside is subject to change and that the document at this early stage is not a sales pitch. This disclaimer usually is printed in bright red ink and, at this point, the entire document is known as a "red herring."

The prospectus "contains all the negatives you can find," says Sanford Robertson, a partner in Robertson, Colman, Stephens, a San Francisco-based investment-banking firm that specializes in initial public offerings for high-technology and health-care companies. The prospectus discloses material that might prove embarrassing.

Factors in a company's past sometimes preclude its going public, and investment bankers have backed out of deals they felt were legally suspect or ethically unpalatable.

If a few indiscretions were grounds alone to abort a new stock offering, however, many firms would be unable to go public. The trick in these circumstances is to convey just enough information to comply with disclosure rules without shouting, "Here's our dirty laundry." The sophisticated reader of prospectuses usually detects any softened revelation of bad news.

For example, a prospectus issued by a consumer-electronics firm in Fort Lauderdale contained a veiled reference to a federal investigation into the source of the company's start-up capital. The inquiry had revealed that the

serves an important function: Without the specialist, trading can break down, with neither buyers nor sellers willing to deal. The stock market plunged last October 19 partly because specialists sat out for a while when huge amounts of stock were dumped on the market in program trading.

The OTC market doesn't grant such monopoly power to individuals. Instead, several or many stock traders are permitted to "make a market" in a stock, that is, buy and sell it. That arrangement, Hardiman says, is much more competitive and more closely approaches the idealized perfect market. "About 1,000 of our companies could be listed on the New York Stock Exchange, but many prefer the competing market-maker system instead of the specialist system," he says.

The other myth about the OTC market is that the listed issues have been lethargic when compared with the blue chips. Wall Street sages in the aftermath of the stock-market crash were recommending that investors stash their money in highly capitalized heavyweights. Hence the "flight to quality," as investors sought what were perceived as solid, secure stocks that supposedly could ride out any calamity.

Yet from mid-December—generally regarded as the time that the market's meanderings ended—to mid-March, OTC stocks as a whole have outperformed nearly every major stock index.

During that three-month period, the NASDAQ index was up 24.5 percent. The next-best performer was the American Stock Exchange, which was up 22 percent. The New York Stock Exchange rose 13 percent, while the Standard & Poor's 500—which contains stocks from all markets—gained 12.1 percent. The 30 stocks that make up the Dow Jones Industrial Average were up 8.5 percent.

Hardiman concedes that the blue chips outperformed the OTC market during the long bull market before the crash. But that period, he contends, was somewhat a departure from the long-term trend. "We had a growing presence in the U.S. market of foreign investors who invested in blue chips," he says. During the past 30 years—except for the 1983-87 period and in 1972-74, when the Nixon administration experimented with price controls and floating foreign-currency exchange rates—the OTC stocks have come out on top of the blue chips.

Going Public Means Baring All

money used to start the company in 1974 had come from the illegal profits of a drug smuggler now serving a prison sentence.

The present CEO said he wrestled with his investment bankers over how to phrase the information about this chapter of the company's history. The investment bankers' attorneys "wanted to make it crystal-clear" in the prospectus, he says, "and ours wanted to make it a little less clear."

Analysts and investors who carefully read the prospectus spotted the relevant paragraphs and apparently were satisfied with the explanations. The offering was oversubscribed.

Companies embarking on an initial public offering find that once a preliminary prospectus is filed with the SEC, there usually is a series of exchanges while federal regulators make sure all the language and financial data are precise and cannot be misconstrued. When the SEC is satisfied, the so-called registration statement allowing the sale of the stock becomes effective. Actual stock sales can begin 20 days after the SEC gives its final approval.

While the SEC is reviewing the prospectus and other information about the company, the investment banker is under way on tasks that, if the stock sells, could produce hefty fees of about 7 percent of the total amount raised by the offering.

First, the investment banker lines up other investment-banking and brokerage firms that agree to sell some of the stock to their clients. This is done to spread risk, says banker Robertson. What are the risks to the investment banker? The biggest is that the issue won't sell. If that happens, Robertson says, "we eat the expenses."

The investment banker pitches the deal to his clients, most of whom are large, institutional investors such as insurance companies, pension funds, mutual funds and banks' trust departments. Without the institutional investors, an issue is dead before it can even move.

As part of this sales drive, the investment banker orchestrates a "road show." The banker and top company officers barnstorm through major financial centers, hitting perhaps Los Angeles, San Francisco, Minneapolis, Chicago, New York, Hartford and Boston one week, then London, Geneva, Zurich and Paris the next week.

At the same time, the investment banker's sales force tries to generate purchase orders. The goal is to overbook the issue by at least twice the number of shares being sold. Since not every prospective buyer will be able to obtain shares in the initial offering, this tactic ensures that there will be demand for shares after the stock begins trading on the open market.

The investment banker is also responsible for setting the initial price per share. This can be closer to art than to exact science, Robertson says. The task becomes easier, however, when other firms in comparable lines of business are also public. In such instances, the offering price is usually discounted by about 15 percent from the benchmark, giving initial investors room for appreciation.

A private business owner can basically thumb his nose at the public as long as his customers and lenders are happy. Not so for executives of public companies, who discover overnight they must answer to a diverse constituency of shrewd financial analysts.

Yet the investment banker still might seriously misjudge the market when setting the price. In May, 1986, Home Shopping Network, Inc., a TV-retailing firm in St. Petersburg, Fla., went public. Merrill Lynch Capital Markets, after sounding out the investment community, decided that it should boost the offering price from about $2.50 a share to $3.00 (adjusted for subsequent 6-for-1 stock splits). The first day of trading produced the maddest dash in the history of initial public offerings, as frenzied investors bid up the stock to $7. Within a few months, Home Shopping's stock hit a high of $47, before heading for the basement.

Hysteria of this sort isn't likely to be repeated soon, at least among firms in that industry. Joseph Segel, who went public in September, 1986, with his QVC Network, a Home Shopping rival, and raised $25 million, says that the frenetic demand for shares of TV home-shopping companies was a matter of timing, much like the demand for biotechnology companies a few years earlier. "The concept, at that time, was hot," he says, but a repeat performance would be impossible in the current market. He advises those considering taking the leap to "wait for the next bull market."

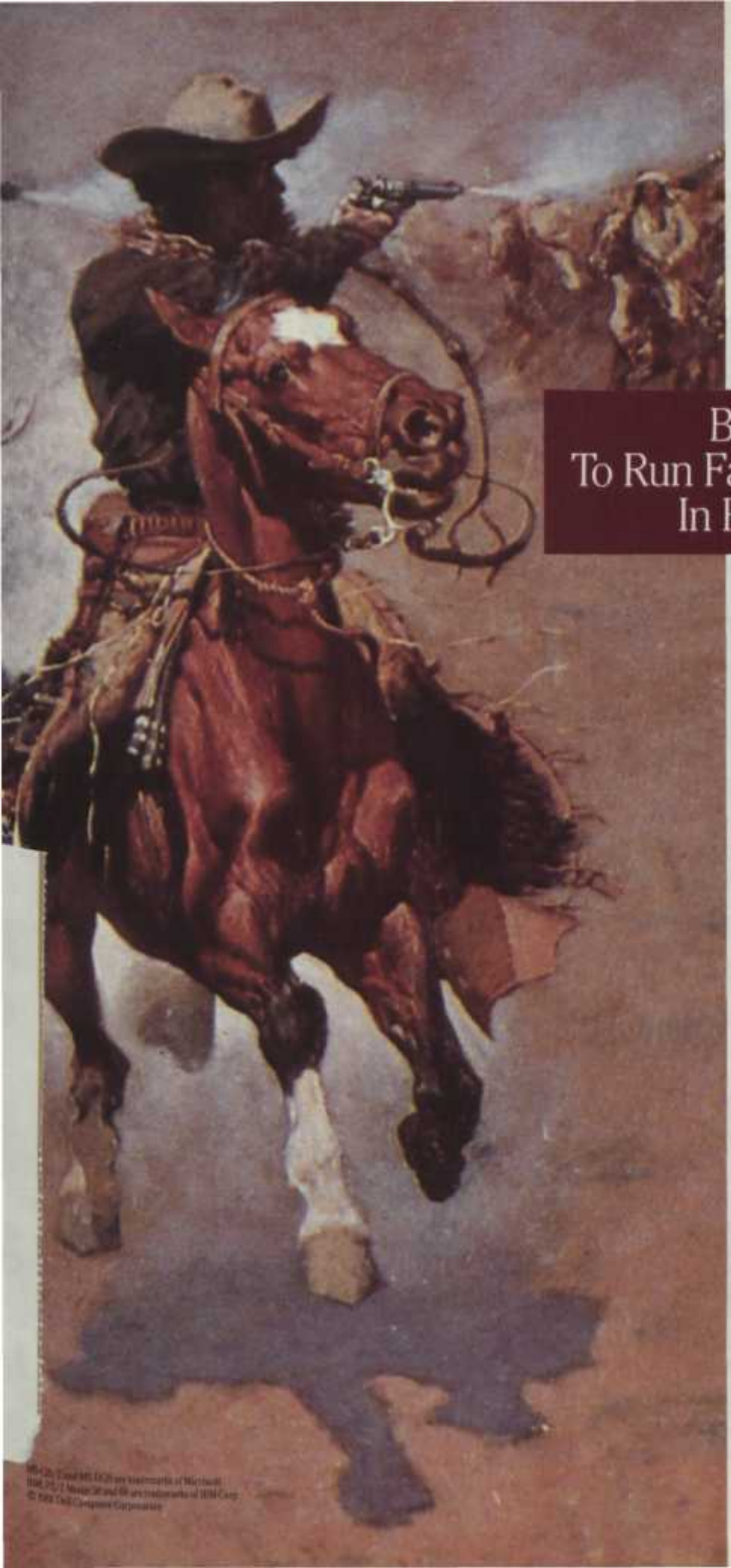
The lack of interest in public offerings is explained in various ways. Investment banker Robertson does not say opportunities are open or closed; instead, he likens the public exchanges to filters. When stock prices are soaring, he says, the filter "becomes very coarse, and a lot of things get financed that shouldn't." When stock prices plummet, the filter becomes "fine," letting through only the cream of the offerings.

Once a firm has passed into the public realm, it must continue to supply the SEC with constant updates about its affairs. Every firm is required to file an annual report known as a 10-K, a quarterly report called a 10-Q and a monthly report known as an 8-Q. Various other reports must be filed according to the affairs of the firm.

By the time a company has gone public, though, dealing with the SEC should be old hat. What might be less familiar are the tête-à-têtes demanded by Wall Street analysts and stock owners. This is an utterly alien experience for many business owners. A private business owner can basically thumb his nose at the public as long as his customers and lenders are happy. Not so for executives of public companies, who discover overnight they must answer to a diverse constituency of shrewd financial analysts, high-rolling gamblers, pensioners and reporters.

George Kadonada, head of U.S. Facilities, the California insurance firm, was experienced in dealing with regulators but not in answering to shareholders. "That was the single largest change," he said, larger even than his stock's plunge to $3.50 a share from its offering price of $10 in October, 1986. "Markets tend to be very short-term-oriented, and we are in a long-term business," he explains. "It's been a learning experience in dealing with analysts and the sophisticated investor." NB

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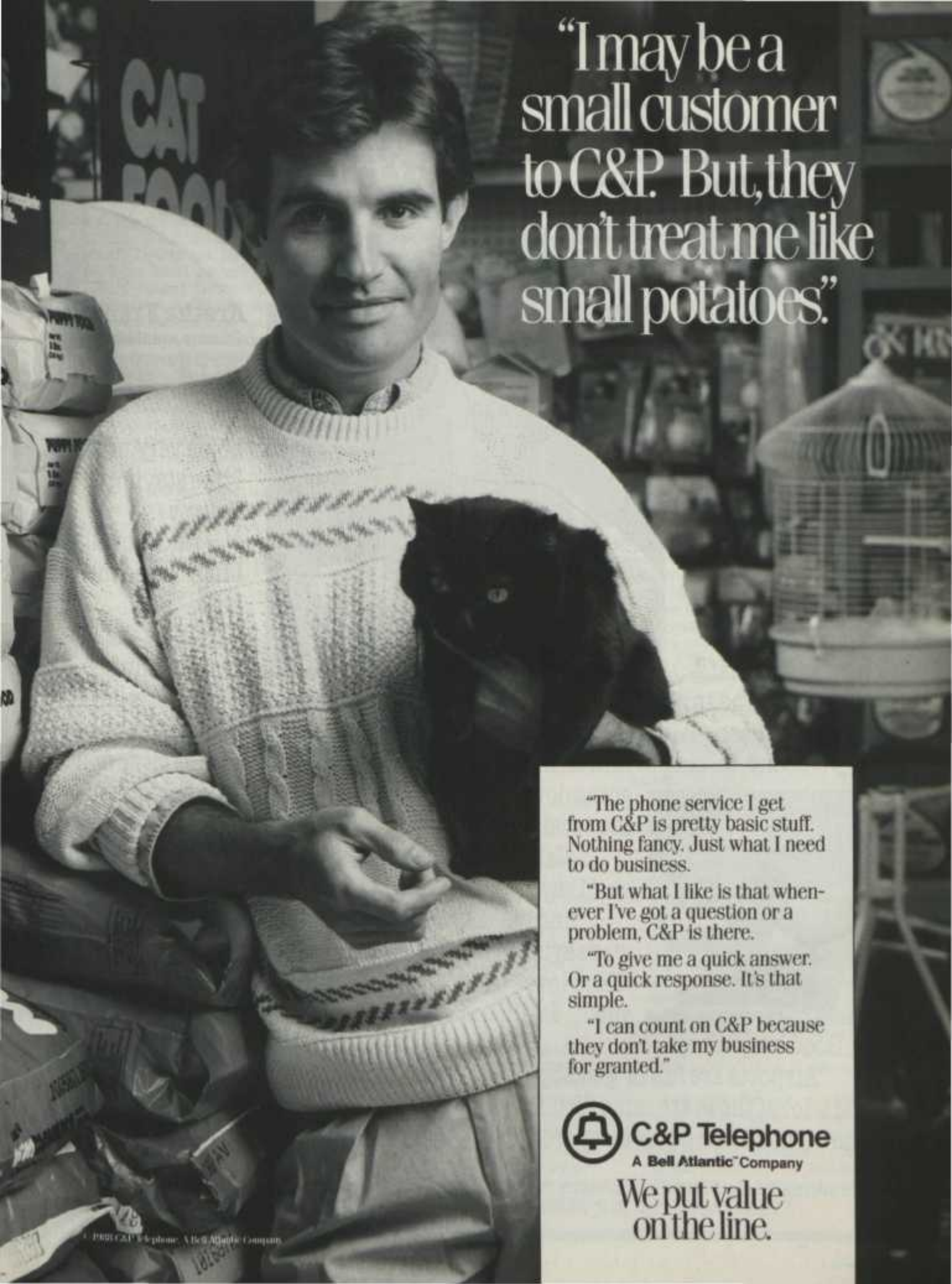
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The Joy Of Family Meetings

By John L. Ward and Laurel Sorenson



ILLUSTRATION: GREGG FITZHUGH—EUCALYPTUS TREE STUDIO

John F. Dobrez has just returned from the latest gathering of the family behind Dober Chemical Corporation, a Chicago manufacturer of industrial chemical specialties with $5.75 million in annual sales.

The clan—company president Dobrez and his wife, plus six adult "children" and spouses—traveled this year to the Caribbean retreat of St. Croix. There, in a formal meeting, each spoke about future plans. Dobrez, 59, thumped home his theme, "You Gotta Have Dreams," as he discussed his own ideas on retirement and succession. And together, they played in the warm island breezes.

Now back at work, Dobrez senses more cooperation among family members employed in the business. He also sees that personal relationships are stronger. "These meetings bring us closer together," he says.

Dobrez has discovered the joy of meeting as a family. Such gatherings aren't always at posh resorts; they can occur at local restaurants, around the dinner table, even in the company cafeteria. Whatever the setting, they include members of the extended family, and they provide a forum for exchange.

You can use a family meeting for many purposes: airing family issues, reviewing the company's performance, planning a community project, talking about the future or teaching the family about topics such as personal finance and estate planning.

These meetings accomplish more than what's on the specific agendas. Properly conducted, they hone the family's ability to share decisions and communicate. Such skills encourage everyone to realize "my opinion is important" and "my feelings matter." This creates a healthy family.

Meetings also spread knowledge about the business throughout the family. That builds team spirit.

"They help me understand what my husband goes through," says Patricia Stevenson, 29. Her spouse, John, is a production-control manager for his father's firm, Anoplate Corporation, a metal finisher for industry in Syracuse, N.Y.

Together, Patricia and John attend quarterly family meetings on everything from Anoplate's growth to estate plans for the family—meetings that convince her the company will someday be a good place for their young son, Andrew. Explains Pat: "You feel there's a future."

Family meetings are more than fun. They are one of the best techniques for making sure the family business works.



PHOTO: RICHARD DERK

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago and a consultant to family businesses. Laurel Sorenson is a Chicago-based writer. They wrote the book Keeping the Family Business Healthy *(Jossey-Bass, San Francisco).*

How To Begin

Families who first hear about family meetings are usually enthusiastic, but they aren't sure how to begin. Here are some guidelines. Keep in mind that anyone in the family might initiate a meeting.

1. Pick a topic. Your topics should reflect the maturity of your family and business. A young family, for example, might meet weekly to divide household chores or decide where to go on a vacation. This gets the family used to meeting.

Older families may gather less often. Topics are likely to focus on the company and can range from the relatively simple—a review of company performance, for instance—to the complex, such as how to choose a successor to the CEO.

2. Select a leader. At first, the person who runs the meeting usually runs the business. But as time passes, it is important to share this role. Candidates include business partners, brothers, sisters, spouses or even offspring.

3. Choose a neutral time and place. Instead of asking the family to gather at noon in the president's office, try after hours in the lunchroom. Getting away from the business completely—on the weekend at a local hotel or restaurant—is even better. This gives the family special time together.

4. Invite everyone. Generally, you'll want to include all members of the family, in and out of the company. The more the merrier!

5. Be comfortable. Family meetings should contrast sharply with business meetings. Dress and language are casual. Tears—whether of joy or sadness—are fine.

To encourage informality, consider announcing your agenda for the meeting in a personal letter rather than a memo. Use phrases like "we'll talk about . . ." instead of "we will resolve that . . ." Sign the letter with your first name instead of initials.

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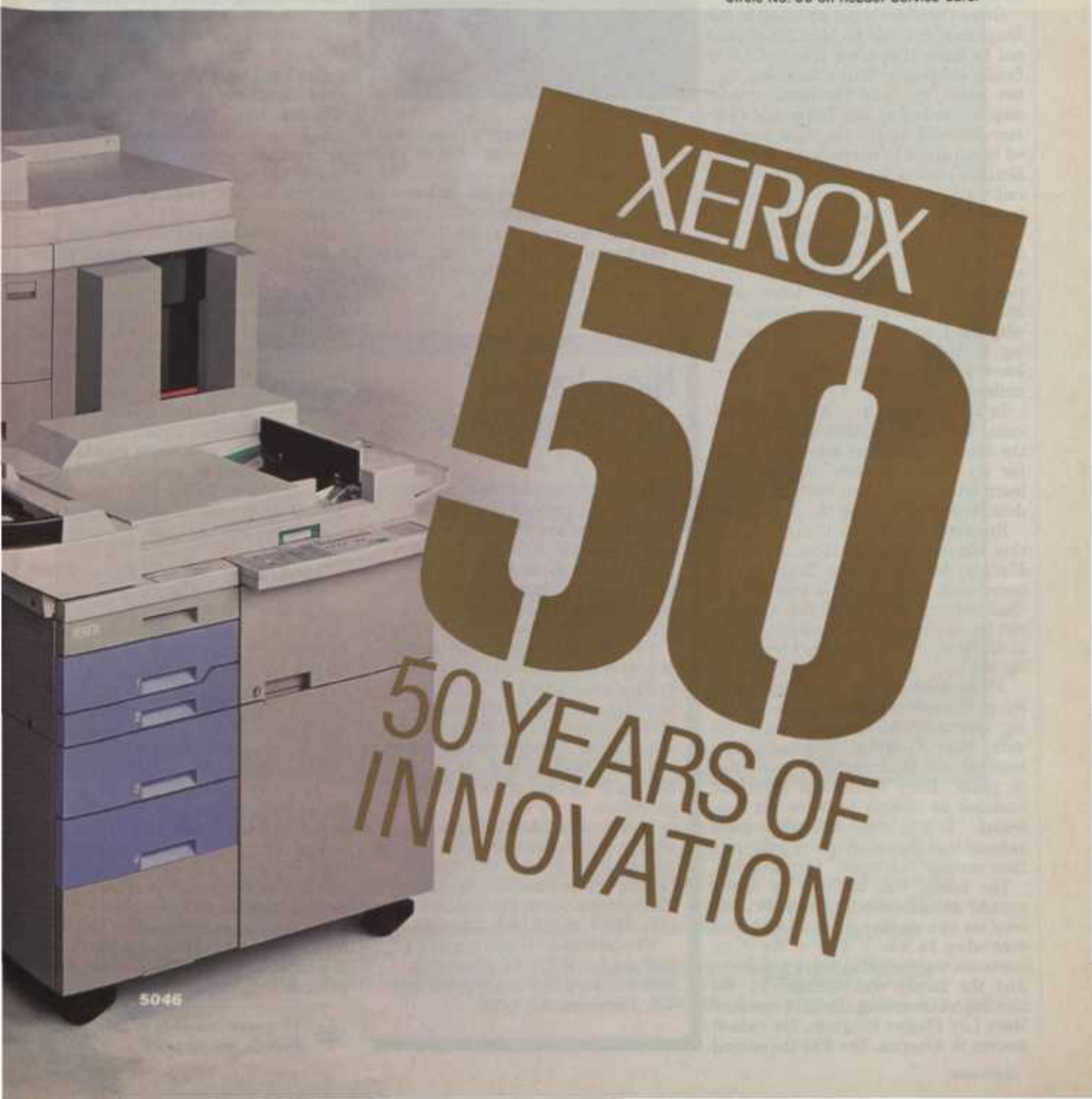
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Tragic Lessons From Louisville

By Sharon Nelton

Every member of a family business will find it instructive, painfully instructive, to read *House of Dreams* (Random House, $19.95), Marie Brenner's account of the breakdown of the Bingham family of Louisville, Ky.

Given the widespread attention to the Binghams, it would be hard for anyone not to know that after years of bitter family infighting, Barry Bingham, Sr., two years ago sold the family media empire—including the *Louisville Courier-Journal*, one of the most respected newspapers in the country; the *Louisville Times;* a television station; two radio stations; and a printing company—for $434 million.

The sale only underscored the fact that the powerful Binghams had totally collapsed as a family. It left three very rich children, including the heartbroken Barry Bingham, Jr., who had been running the *Courier-Journal* and, according to author Brenner, still does not know why his father sold it out from under him.

In an interview with *Nation's Business*, Brenner said that last summer, the deposed publisher asked his father for an "exit interview" so he could learn what Barry, Sr., thought he had done wrong in running the newspaper.

Brenner says that although the father had used his daughters, Sallie and Eleanor, to fight young Barry in the boardroom, the father now said the sale "had nothing to do with the way you ran the newspaper." Brenner says that at 82, Barry, Sr., still couldn't level with his son.

At the center of the Bingham tragedy, in Brenner's account, is the "amazing marriage" of Barry, Sr., and his wife, Mary Caperton Bingham. Their bonding was so strong that even after 55 years, Mary would still greet her husband as though he were her boyfriend. "It was their children's great sadness that they could never penetrate their parents' marriage," says Brenner.

The family was buffeted by death, scandal and alcoholism. Barry, Sr., had seen his own mother die in an auto accident when he was 7. Two of the Bingham sons were killed in freak accidents. And the family was haunted by the mystery surrounding the 1917 death of Mary Lily Flagler Bingham, the richest woman in America. She was the second



PHOTO: TING CHIAO

wife of the senior Barry's father, Robert, who was all but accused of murdering her for her money.

What lessons can families in business learn from the Binghams? There are many, says Brenner. Among them:

Don't keep secrets. Barry, Sr., denied that he knew about the Mary Lily scandal as a child, even though he was 11 at the time.

When the children would ask, "What did happen with grandfather?" Brenner says, the subject would be closed. His defense of his father's reputation became more important to him than his relationship with his children.

"At age 80," writes Brenner, "Barry, Sr., was willing to come to New York in a snowstorm to obtain information from reporters who he found had learned about the old allegations that his father might have been a murderer, but he couldn't walk up his own driveway to make peace with his one remaining son."

Don't put children who have no business experience into the business when it's too late. Barry, Sr., placed his daughters on the board when Sallie was in her early 40s and Eleanor was 32. Sallie then began "speaking out against her brother as she had as a child," says Brenner.

She advises parents to allow one person to run a business or train all of the children to go into the firm, and map out a business strategy so they can each have a useful and satisfying role.

And make sure they work out all their sibling-rivalry problems before they get on the board. If they don't, she warns, they will "start fighting with each other in the boardroom the way they fought in the playpen."

Communicate with family members directly. Because he couldn't abide unpleasantness, Barry, Sr., used his daughters to raise questions about the way their brother was running the newspaper.

When family communication broke down completely, Mary and Barry began to talk to reporters.

"Perhaps they reasoned that these interviews would become an alternative way of communicating," writes Brenner.

Don't shut out your children. Children benefit when their parents have a loving marriage but not if that marriage excludes them.

"However bound up you are in each other, your children are your children," says Brenner. "You created them. Pay attention to them, and give them that most important gift of self-esteem and independence through your own ability to communicate with them."

Perhaps the saddest part of the Bingham story is that Mary and Barry, Sr., like most parents, had the best intentions. NB

New Journal On Family Firms

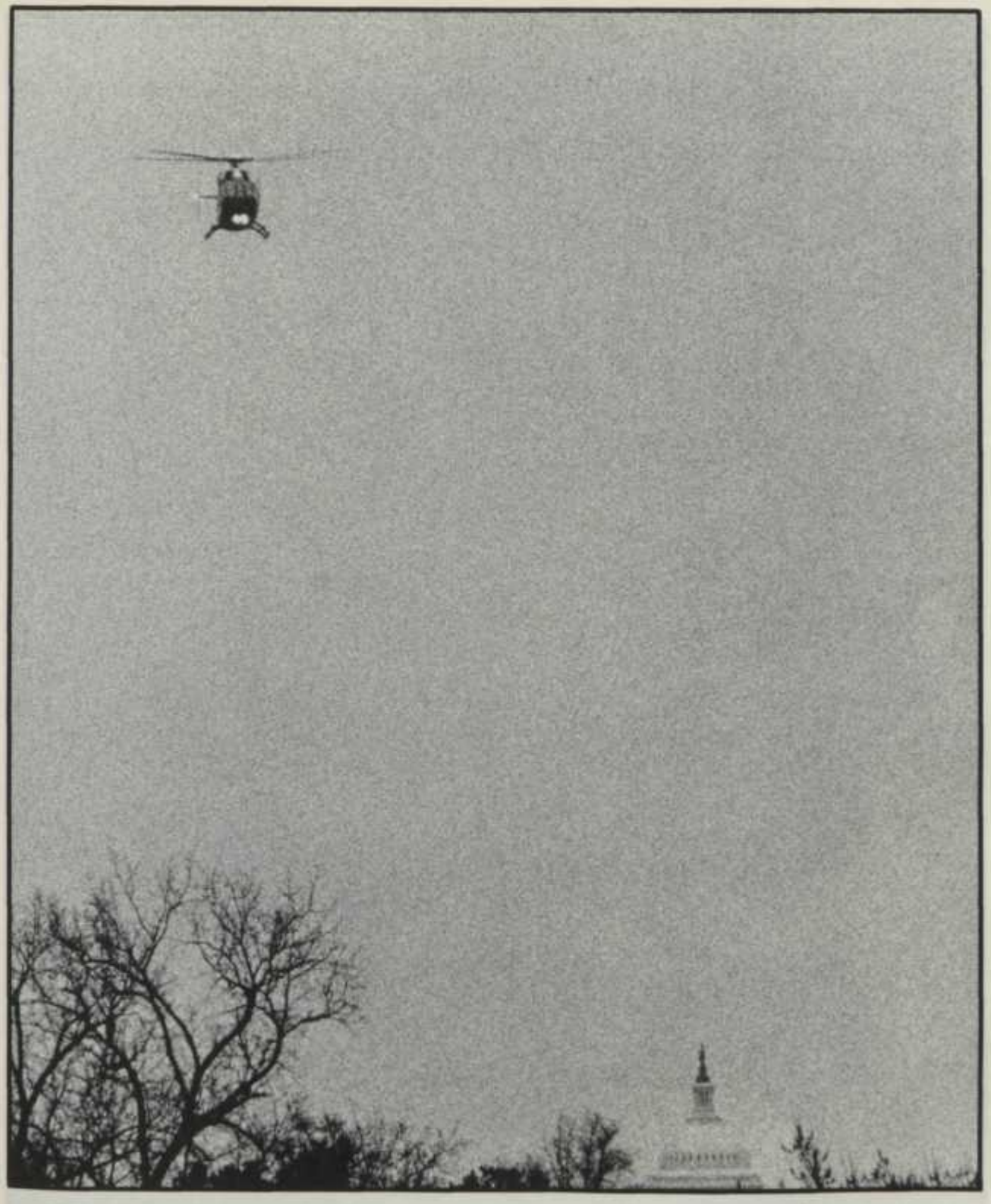
The *Family Business Review* has made its debut this spring. A quarterly, it is the journal of the Family Firm Institute, a recently formed organization of academics, consultants, lawyers and others who serve family businesses. Editor-in-chief is Ivan Lansberg of the Yale University School of Organization and Management.

The lead article in the first issue looks at what happens when a daughter or younger son—instead of the oldest son—takes over the family business. Other articles discuss employee ownership in family firms and how the culture of a family company helps determine success of the business beyond the first generation.

Institutional subscriptions are $72; subscriptions for individuals are $45. The journal can be ordered from Customer Service, Jossey-Bass, Inc., Publishers, 350 Sansome Street, San Francisco, Calif. 94104; or call (415) 433-1767.

Membership in FFI also includes a journal subscription. For information, write to: Family Firm Institute, P.O. Box 476, Johnstown, N.Y. 12095.

To order reprints of this article, see page 62.



Transplanting Hopes. *Leslie Glover had almost stopped hoping for a normal life when the MedSTAR helicopter was called to pick up a kidney that had just been donated. A few hours later, Leslie received the transplant at Washington Hospital Center—known for its leadership in kidney, cornea, and skin transplants, and the first heart transplant in the District. The efficiency and speed of the donor matching system and the transplant team help make sure that an unknown benefactor's selfless gift brings to someone like Leslie the gift of time.*

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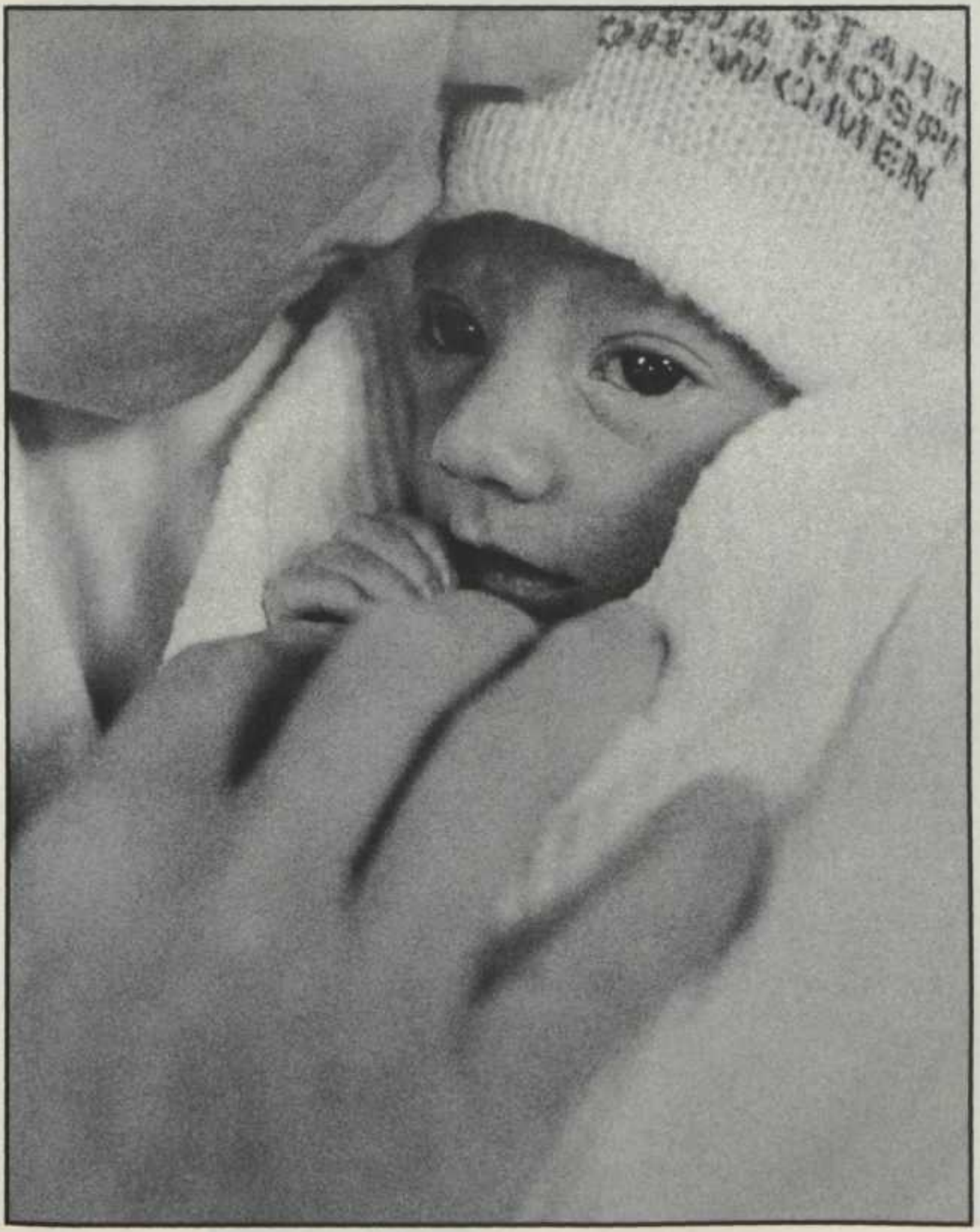
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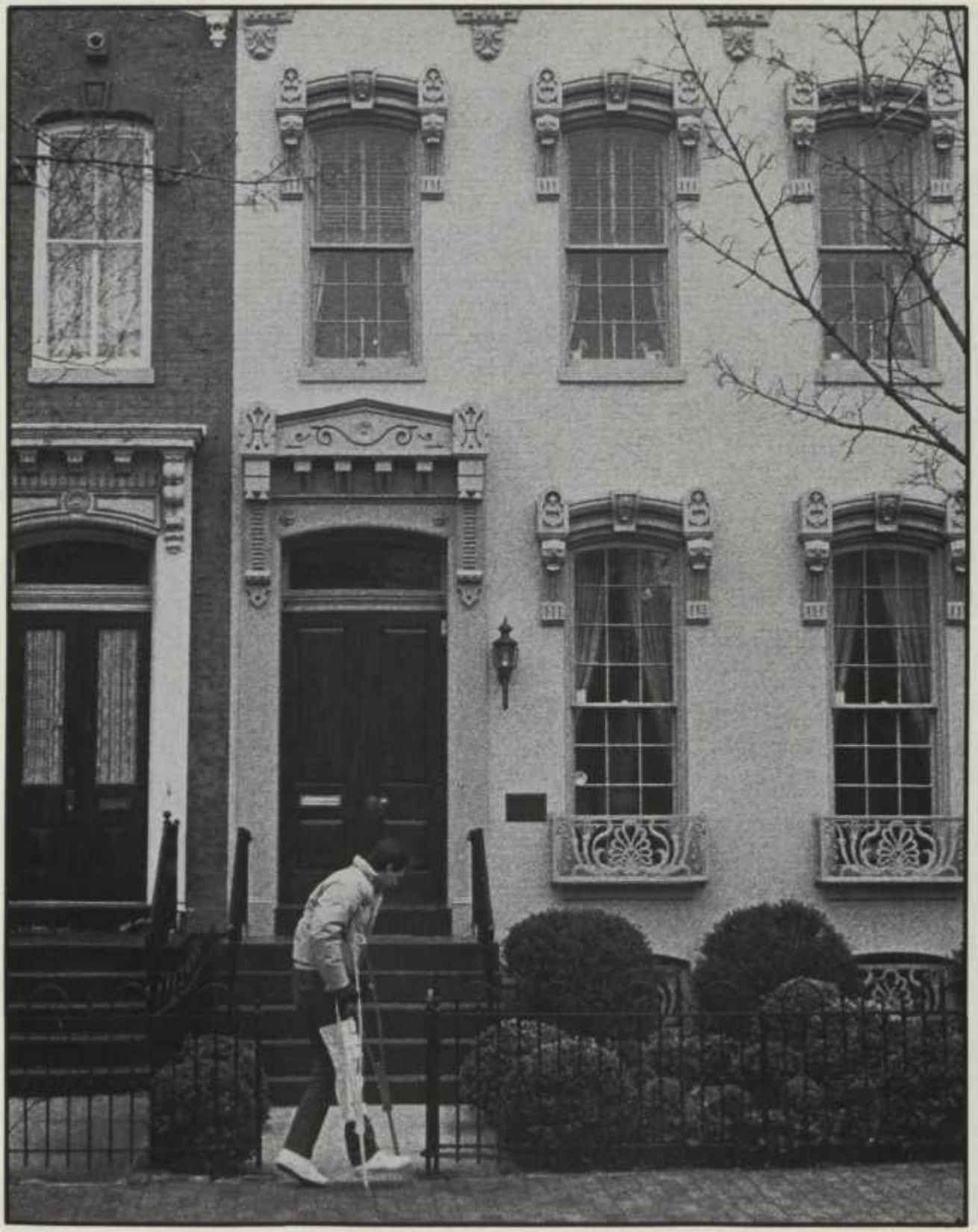
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PHOTO: SAL DIMARCO—BLACK STAR

When Delaware businesswoman Nona J. Cunane dons her version of the dress-for-success outfit, it includes a hard hat.

From The Ground Up

Du Pont was the place to work in 1965 if you were a 17-year-old Newark, Del., girl who had just graduated from high school. And that is where Nona J. Duffy went.

If you had told her then that one day she would, as Nona J. Cunane, be running her own $6 million-a-year conglomerate, she would have thought you were crazy. Nevertheless, she is president and chief executive officer of Guardian Management Company, an umbrella firm for five corporations engaged in businesses ranging from construction to environmental cleanup to equipment leasing.

"I had wanted to be a nurse," she says. But she knew she couldn't afford nursing school, so she took business courses in high school. She held secretarial and administrative jobs at Du Pont for the next seven years, and because of the security it offered, she recalls, "working for Du Pont was like heaven."

In 1969 she married Joseph Cunane, Jr. She had met him at the local roller rink when she was 18 and he was 22, but she wouldn't date him for three years because he was "an older man. I thought that I couldn't handle him," she says with a laugh. When the babies started coming, she still went back to Du Pont to work part time. But after the third of the four Cunane children was born, Joe, who was a partner in a construction firm, encouraged his wife to go into business for herself.

Since she had once done lawn-maintenance work on weekends to pick up extra money, Cunane decided to bid on a lawn-maintenance job with her old employer, and in 1976 she won a contract to care for 200 acres at Du Pont's Glasgow, Del., site. She did the work herself. While she "was out there sweating in my bib coveralls and boots," her former co-workers waved to her from inside the offices.

She took in $25,000 that first year, and in her second year she got the Du Pont job again, as well as lawn-maintenance contracts with New Castle County and Delaware Power & Light.

She also got her big break: three contracts totaling $430,000 from Amtrak for right-of-way cleanup. "I was used to grocery bills being $40, and $430,000 was all the money in the whole world to me," she says.

The Amtrak job meant brush-cutting and clearing, work that required the purchase of additional heavy equipment. To keep the equipment in full operation, Cunane began to take construction jobs—foundation work, roads, bridges. She hired construction workers and added a partner, Jerry Jalosky, who owns 5 percent of the company and who brought construction expertise. Before long, Cunane also moved into snow removal and hazardous-waste removal, including emergency cleanup of oil and chemical spills.

Guardian's location in Bear, a rural community near Interstate 95 in northern Delaware, offers quick access to Wilmington, Philadelphia, Baltimore and Washington—access that is particularly valuable for its emergency services.

In March, Cunane signed a three-year contract with the Environmental Protection Agency for cleaning up hazardous-waste sites under EPA's Superfund program. The contract could bring in anywhere from $40,000 to $3 million per year.

Diversification has been one of the keys to Guardian's success. If one area slowed down, Cunane says, Guardian could always bid for work in another. But she has taken care not to become

From The Ground Up

spread so thin that "we lose control and begin to get a bad reputation for doing a bad job somewhere. We want to keep the company directed and continue to do a good job for everyone that we work for."

Keeping control was one reason Cunane reorganized the single company called Guardian Construction into the present six companies last November. The new structure will help Cunane keep on top of costs and growth and will also enable her to market her different services more effectively.

"It was hard [for potential customers] to realize that we did railroad and environmental work when we were calling ourselves a construction company," she says.

She is also concentrating on turning Guardian into a more professionally managed company. After spending years building her field staff with the best people she could find, she is now beefing up her administrative and management team and hiring more marketing people and engineers—people who will, she says, "help me direct the company's growth."

Guardian has expanded to 120 employees (including husband Joe, who joined the firm two years ago), and Cunane has won wide recognition as a successful woman in a male-dominated field.

Despite the complexity of her business, Cunane's next goal sounds simple: not to be just profitable, she says, but to be "*very* profitable."

There is no money in her pocket, she explains, because she has invested everything in equipment and good people. And, for once, she'd like to get a little bit ahead.

—Sharon Nelton

Free-Spirited Enterprise

Do You Yell "Fore" Or "Fur"?

A Marquette, Mich., company called Wink of Mink is marketing a line of centerpieces, boutonnieres and corsages whose silk roses nestle in beds of brown, white, silver-blue or black mink.

The company also sells an item designed for those who believe in high-style recreation: a mink-trimmed golf tee.

Man Bites Dog

There is a little bit of wolf in every family dog, a touch of wildness that makes Rover rove. Entrepreneur John Purtell, 40, of Wayne, Pa., has found a way to restrain wayward pets without conventional fencing.

In 1976, Purtell was a restless production-control manager for a munitions manufacturer in Philadelphia. Seeking opportunities to go out on his own, he learned of a dog-control system devised by an amateur inventor in nearby Allentown.

The system worked this way: Bury a wire 2 to 3 inches deep around the perimeter of a property. Attach the wire to a transmitter emitting a pulsed AM radio signal, so that the signal is emitted by the buried loop, too, in a radius of perhaps 10 feet. Outfit a dog collar with a receiver powered by a 7-volt battery. When the dog approaches the buried wire, a buzzer on the collar sounds, warning the dog to withdraw. If the dog does not, after 1½ seconds it gets a mild electric shock—a "correction"—from the collar.

With a little training, the dog quickly learns to associate the shock with territory that is off-limits, and it stays away, no more to chase cats across town, dash in front of cars or defile the neighbor's flower garden. Yet the dog has free run of its own yard.

Purtell bought the rights to this invention, dubbed Invisible Fence, and started seeking markets for it. Immediately, he found that the system had several limitations. For one thing, the package worn on the collar was about the size of a cigarette pack—too big for toy poodles or Chihuahuas. Also, the transmitter was too weak to allow the system to be installed on very large properties.

Because the price for each unit was steep—it is now around $1,000 installed and $750 for a do-it-yourself kit, for properties of up to an acre—Purtell's customers tended to be well-heeled. "We saw in them a possible source of the venture capital we needed to make the product useful to a much wider group of dog owners," he says. Contacts with customers led to a meeting with an investor who is now Purtell's backer in the firm. Purtell then took his product off the market for an extensive redesign.



John Purtell has outfitted his own dog, Jake, with the electronic collar sold by his company, Invisible Fence of Wayne, Pa.

PHOTO: MICHAEL MALLY

The revamped Invisible Fence system uses a more powerful transmitter and a much more compact collar unit, with a battery that lasts six months. According to Purtell, sales since the product was reintroduced late in 1980 have been increasing an average of 80 percent annually. Revenues in 1987 were about $4.5 million on sales of more than 17,000 transmitters. The system is sold through a nationwide network of dealers.

Not surprisingly, Invisible Fence had to answer questions from animal-protection authorities right from the start. "The Humane Society checks us out wherever we go," Purtell says. To help him respond to such inquiries, he commissioned a study at a major veterinary school. Dogs in the study, shocked under anesthesia at two-minute intervals for three hours with the Invisible Fence collar, showed no ill effects.

Purtell's success has not completely curbed his impulse to try something new. "We're looking at using a related technology for cattle control," he says. "There might even be applications in the prison field. We're thinking about something that would keep track of prisoners on work release or parole."

It wouldn't be entirely a dog's life for the convicts, though. This unit would not deliver a shock.

—Jack Romig

The Great American Dream Machine: Crank Cautiously

By Nancy L. Croft

Lois Marshall's executive search and personnel agency in Carmel, Calif., had all the signs of becoming a successful franchise. The Marshall Group had offices on the West Coast and in Canada. She hired the best legal consultants she could find, recruited a team of savvy managers who knew franchising inside out and built a board of directors that included top CEOs and past presidents of the International Franchise Association. Marshall's face even graced three magazines in six months. Everyone told her she had a hit on her hands.

So why did she end up dissolving her franchise, sending her 12 franchisees off on their own after only a couple of years?

"The problem came when my partners and I could not find the right franchisees," says Marshall. "Through all the publicity we received a number of leads, but after meeting with most of them, we determined they weren't destined to be successful."

Rather than expand her franchise with the wrong people, which could tarnish the reputation of the entire business and everyone involved, Marshall decided to cut the apron strings amicably. She also agreed to offer guidance and support as long as her former franchisees needed it.

After her aborted attempt at franchising, Marshall went back to running her business independently. She says that because she experienced the same frustrations as other new franchisors, she has a special understanding of their needs. The Marshall Group now specializes in finding qualified managers to work for franchisors. Says Marshall: "Many people think franchising is a get-rich-quick scheme, and quite frankly it is not. It takes a long time to do something well."

Many small-business people dream of driving into any state and seeing their companies' logos splashed across billboards. Franchising often seems the quickest way to achieve that dream. Indeed, the number of franchised businesses has grown significantly in the past decade, and many franchisors have acquired great wealth from this form of distribution.

But what even very successful entrepreneurs find out is that franchising

Alan Levine, president of Chicago-based USA Baby, learned he and his brother Richard (not shown) must give their juvenile-furniture business' franchisees extensive support, while Bill Wolar and his son, Bill, Jr., (below left) learned they couldn't do it alone when they began franchising their Miami Springs, Fla., business, Cheesecake, Etc.



PHOTO: RICHARD DERK



PHOTO: FRANK PISANO



PHOTO: SHARON BEALS

Franchising means "going into a totally different business than you're in now," says Joe Sanfellipo (left), co-founder of O! Deli sandwich shops with Rick Cardin.

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The Great American Dream Machine: Crank Cautiously

does not always show a quick profit, and it certainly isn't easy.

There are many—often complicated—steps to building a successful franchise. Before embarking on any franchise plan, experts say, potential franchisors should take a close, analytical look at their businesses to determine if they are franchisable.

The product or service must appeal to people in different regions of the country, and the business method must be teachable to people who may have no business experience.

One essential test of the method is to set up a pilot franchise, as did Bill Wolar, a former attorney who founded Cheesecake, Etc., in Miami Springs, Fla., and his son, Bill Wolar, Jr., who joined the firm later.

For 12 years, Cheesecake, Etc., had successfully served the wholesale market. Two years ago, however, the Wolars wanted to try their hands at operating retail outlets, and to expand rapidly by franchising. They set up a prototype store, which they sold to a married couple, intending to learn from it for a year before setting up the franchise system.

According to their plan, they would save money on consultants' fees by running the system themselves: Wolar's father would take care of the legal documents and provide management advice; Bill Wolar would sell the franchises. But, says Wolar, Jr., "we quickly learned that you do need outside help to franchise. If you never have been in a franchise business, you just don't know what should be done." The biggest benefit of hiring a consultant, he says, was to help them develop an identity system, in which a certain image was carefully reproduced in every store. "A second benefit is management organization," he says. "Our consultant outlined exactly what we had to do from start to finish."

Unlike the Wolars, many entrepreneurs are too emotionally attached to their businesses to look at their operations objectively before franchising, says consultant Les Rager of Rager & Associates in Roswell, Ga. For these business owners, a consultant can play a critical role in determining the future of the business. Most consultants will not attempt to develop a franchise plan unless the entrepreneur has run a prototype with a successful track record.

A good franchise consultant can help entrepreneurs avoid making a fatal

mistake of assuming that success in one location means success all over the country. Often this involves several months of feasibility studies.

Rager, for instance, spends up to four months conducting an in-depth analysis of a particular business and its industry. The analysis includes market research, in which he mails out questionnaires and talks with focus groups to see if the business appeals to different types of consumers in different areas. He also examines the company's method of bookkeeping, purchasing and marketing. "We determine how efficient the prospective franchisor is in his own business," says Rager. "If he's not terribly efficient in his business, it's difficult to teach it to someone else."

But consultants' fees are not inexpensive. A feasibility study alone can cost $5,000 to $20,000. An entire franchise package that includes a feasibility study, a business plan, a marketing plan, operations manuals, training programs for franchisees and the franchisor's management staff can range from $50,000 to $100,000.

The complexities of the business lead Bernard Browning, chairman and founder of General Business Services, Inc., in Germantown, Md., to advise those who think they want to franchise their businesses to become master franchisees in their industries first, that is, become owners of several franchises, each run by a subfranchisee.

"Learning from other franchisors' mistakes will save you a lot of grief," says Browning. The franchisee who feels he is ready to franchise his own business, he says, should proceed with great caution. "Hire people with actual experience in franchising to keep you from making mistakes. Franchising looks deceptively simple, but people have made big mistakes by refusing to spend money to learn how to become a franchisor.

"Franchising is a business-development tool. Like any tool in the hands of an amateur, chaos and damage can result. But when it is in the hands of an experienced professional, many benefits will result."

Most people don't know what they're getting into when they want to franchise, says Philip Zeidman, a franchise attorney with Brownstein, Zeidman and Schomer in Washington, D.C. "For that reason, I spend as much time discouraging people from franchising as encouraging them." Many franchisors, he says, experience problems that arise from not having recognized that when they franchise a business they're really not in one business but in several businesses. Franchisors are salespeople, credit bureaus, property lessors and collection agencies among other things.

"You're really going into a totally different business than you're in now," says Joe Sanfellipo, who cofounded and franchised the O! Deli sandwich shops in San Francisco two years ago. "You really become a management adviser to franchisees. And that means you have to be an expert in every area of the business—from opening a business checking account and getting a sales-tax permit and business licenses to how franchisees trademark their own names if they choose to operate under a different name than the franchisor's."

Most franchisees, says Sanfellipo, have never run a business. Because they usually don't know how to find an ideal location, how to hire employees or how to open a new business, they look

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The Great American Dream Machine: Crank Cautiously

to the franchisor for support and guidance.

Support services—essential to the success of any franchise operation—are costly. Many franchisors underestimate how many support services they will have to provide to new franchisees. It is critical that franchisors devise a royalty plan that adequately covers the costs of support services in addition to yielding a profit, says Rager. "That's something that very few people worry about, and, boy, you'd better worry about it," he says.

Richard Levine, franchise director of Chicago-based USA Baby, a franchise for juvenile furniture and accessories, discovered that his franchisees depended on him for support services that were more time-consuming and extensive than he had expected.

For example, Levine's newest franchisee will be in Hartford. He has gone there four times to check out the potential franchisee. The franchisee will spend two weeks in Chicago for training, and then Levine and his team will make three more trips to Hartford during the franchisee's first three months of operation.

"We expect the franchise to be in the black by end of year, but it's not any get-rich-quick scheme," says Levine. "It might be for some businesses, but it's not in this, because you have to devote so much time and effort to ensuring their success."

Much of the time that franchisors devote to making franchisees successful is spent teaching them how to manage. "A small-business owner typically runs his business by instinct, by the seat of his pants" says O! Deli's Sanfellipo. "Once you get into franchising, it's very difficult to communicate or transfer those skills to someone who doesn't have the same background you have had." As Lois Marshall discovered, managing by instinct isn't easy to teach.

Before making the investment in franchising, USA Baby decided to practice its management expertise on six small, independent stores whose sales were stagnant. The consulting program turned into a successful three-year experimental franchise operation.

"We took several stores from $500,000 in volume to over $1 million. We even produced our own TV ad tapes and printed our own direct-mail pieces," says Richard Levine.

"Word gets around when you're producing that kind of volume, and other people began to approach us about using our consulting service. At that point, we knew a franchise would work."

Franchising works better for some businesses than for others, however. Ken Franklin, president of Franchise Developments, Inc., a franchise consulting firm in Pittsburgh, says anyone thinking of becoming a franchisor should determine beforehand that the business:

- Produces enough profit to give the franchisor an adequate royalty and the franchisee a good return on investment.
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Jim Gendreau
Cost Cutters Franchisee

Jim Gendreau is an investor. He owns several Cost Cutters franchises and he is in the process of developing even more.

Jim says Cost Cutters is a relatively simple business with four main elements: marketing, advertising, location and the lease. "I merchandise our shops as hard as I can," says Jim, "and the Cost Cutters marketing material absolutely works. They keep their material fresh with new ideas every year."

Jim has been Franchisee of the Year, and says while "we run a clean and tight organization, I only have to spend one day a week for the several shops we own."

Jim adds that he has a partner, a CPA, who after reviewing Jim's worksheets wanted to join the enterprise.

Jim is also impressed by the Cost Cutters systems from training, to inspections and operating systems. "Your manager just has to follow the book; it's all in black and white from turning the lights on in the morning to switching them off at night."

Jim urges prospective Cost Cutters franchisees to "do their homework by taking advantage of Cost Cutters management expertise, researching their market and talking with other Cost Cutters franchisees.

That's one of the great aspects of a Cost Cutters franchise—we all help each other be successful," Jim concludes.

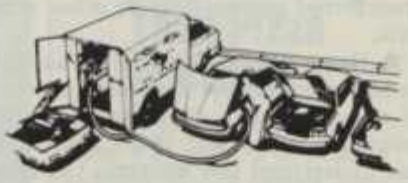
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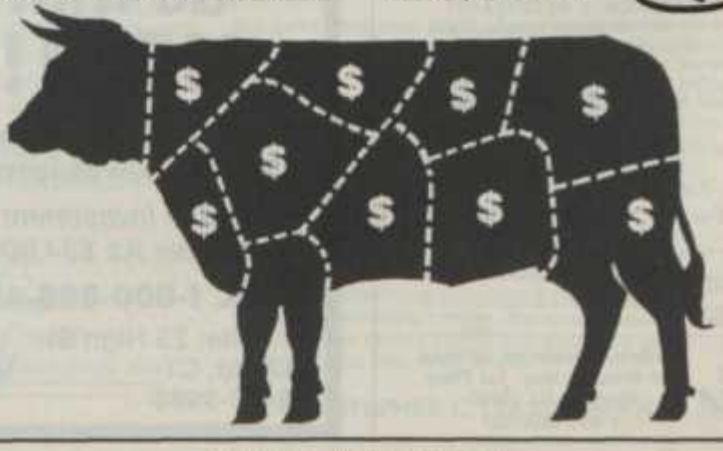
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The Great American Dream Machine: Crank Cautiously

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- Has developed controls and monitoring devices to help the franchisee do a better job, as well as enable the franchisor to audit if necessary.
- Has sufficient financial strength (internal capital or borrowing ability) to develop the franchise program and handle the ongoing administrative costs until the royalty stream begins.
- Enables management to administer a system rather than operate a business.
- Furnishes significant benefits to franchisees.
- Has considered the legal concerns in choosing a protectable trademark, in deciding on an appropriate structure for the franchise and in complying with state and federal regulations.

Particularly because of those regulations, franchising experts uniformly recommend that a prospective franchisor obtain good legal advice. A franchise attorney drafts the documents required by the Federal Trade Commission and individual states. An initial franchise agreement, for instance, determines how much control a franchisor has over franchisees' operations and outlines what is expected of both parties. An offering circular or disclosure document gives a track record of the business and its principals, and a franchisor is required by law to present it to a prospective franchisee at their first meeting. An attorney also prepares any state registration documents needed.

Besides drafting contracts, a good franchise attorney will also spot trouble areas in the business and will structure certain agreements to prevent future lawsuits. The attorney will also help an entrepreneur determine how much control over the franchise he actually needs compared with the amount of flexibility the franchisee may need.

However, even the best plans may go awry if a franchisor hires the wrong management team and sells franchises



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The Great American Dream Machine: Crank Cautiously

to unqualified individuals. "Staffing a franchise company is much different from staffing any other business," says Lois Marshall. "A franchise company is like a dream machine—you're selling an opportunity to people who are looking for the great American dream of owning their own business. When you're dealing with people who've mortgaged their homes, you have literally signed a contract that is more demanding than a marriage contract. These people call day and night with their problems, and they expect you to find the solution. If you don't, they can sue you—and many times they do."

The franchisor, says Marshall, must bring aboard the right management staff to screen potential franchisees. It is also critical that a franchisor thoroughly screen franchise sales people—especially outside brokers. Many inexperienced or unscrupulous brokers will guarantee a prospective franchisee that he will make a certain amount of money. Such "earnings claims" are illegal. When the earnings don't live up to the salesperson's promise, many franchisees sue.

"It's devastating—for everyone," says Marshall. "A court generally rules in favor of the little guy—the franchisee who has mortgaged the house again, dipped into the kids' college funds and forgone vacation. It's devastating for them not to succeed." And a ruling in favor of the franchisee can be devastating for the franchisor.

To feed the royalty stream, says Marshall, undercapitalized franchisors may take anyone who applies for a franchise. "But many franchisees are looking for someone to hold their hands and guarantee success," says Marshall. "If these people do poorly, it takes a tremendous amount of time, effort and money for the franchisor to get them up to speed." And until they are up to speed, the royalty stream will be minimal. "Franchising is not for anyone interested in a fast buck," says consultant Ken Franklin. "The franchisor invests time, technique and talent to match the franchisee's dedication and investment."

Les Rager agrees. "Franchising is a wonderful way to get rich, but it takes a ton of work, a lot of money and a total commitment," he says. "It's very seldom that you hear about anyone being an overnight sensation in franchising. It always takes more money, more time and more effort than you ever thought it would." **NB**

Overcome Hurdles At Home: Export

For six businesses run by entrepreneurial women, survival and growth meant finding markets that were overlooked—and overseas.

By Steven Golob

Marta Maxwell, a Hispanic immigrant with two children, and Cherie Walden, a member of the Junior League of Tucson, Ariz., arrived on the exporting scene from very different directions.

A banker told Maxwell she might get a loan to open a beauty parlor but she never would get one to bankroll her plan to sell aircraft parts. Today she brings in $10 million a year by shipping parts around the world from Wichita, Kans.

Walden has been selling pecans in little gift packs and in bulk-container loads in Japan for three years, and she is making plans to sell still more pecans in Pacific Rim countries that have never seen the hard-shelled nut.

Add Maxwell and Walden to the growing list of women whose businesses are succeeding because they created markets overseas. Former body-building champion Heidi Miller plans to franchise more than 300 of her "Frogen Yozurt Shoppes" in Japan. Carole Chinman's world traveling with her husband tapered off when he retired, and now she sells luggage accessories abroad.

These are more than success stories of women in business. These tales show how exporting can help new businesses get off the ground in untapped markets with no established competitors. They also are lessons in how exporting can help small and midsized firms become bigger businesses by providing areas for expansion.

Just as increased exporting will make America's economy more viable, exporting can make individual companies more likely to survive downturns in the U.S. economy.

It worked for Marta Maxwell and the aircraft-parts business she started in her garage in Wichita. In 1969, her husband—with whom she had emigrated to the United States from Argentina six years earlier, and with whom she had set up the hand-to-mouth business—was gone following their divorce.

"I had to take charge," she says. Initially, Maxwell used her knowledge of South America to build the company, Airparts International. It has since expanded to 70 countries, buying Cessna, Beech, Lear Siegler and Pratt & Whitney aircraft parts and accessories, and reselling them through a network of 1,200 foreign distributors.

Maxwell has won business-leadership



PHOTO: ED MARTIN—ROCKER LAMB

From Junior League to exporting's big leagues: That's where Cherie Walden (left) and Liz Alexander hope to go by selling Country Estate Pecans in Southeast Asia.

Overcome Hurdles At Home: Export

Carole Chinman's world travels led her to market Smartpack, a collection of garment carriers that help eliminate wrinkles from a traveler's wardrobe.



PHOTO: SAL DIMARCO—BLACK STAR

awards from city, state and national organizations. She is remarried, and she frequently returns to Argentina. But now she travels on business that takes her to many countries and to meetings with national leaders. Marta Maxwell has come a long way with determination and a high-school education.

Cherie Walden is a college graduate, as is her friend Liz Alexander. When they met in 1979, Alexander was president of the Junior League of Tucson, and Walden was doing volunteer work for the league and other groups. Walden's husband is president of Farmers Investment Company, which was started by his father. Alexander's husband is a successful real-estate broker.

In 1981 Walden and Alexander decided to go to work. Walden had majored in sociology in college, Alexander had majored in history and education. Their academic backgrounds had helped them raise children but seemed to be no help to them in the job market.

"I talked to a lot of businessmen with whom I had served on community boards. They all suggested I become a receptionist," says Alexander. Instead, she and Walden started L & C (for Liz and Cherie) Gourmet Products, Inc.

Since Farmers Investment, with 300,000 pecan trees on 5,000 acres south of Tucson, is the world's largest grower of pecans, the businesswomen decided to sell pecans. At present, Farmers sells most of its crop to big players in commodities such as Planter's, Hershey and Frito-Lay. Selling pecans abroad is how L & C competes and how it plans to break into the big leagues.

Walden and Alexander went to a trade fair in South Korea last November and to one in Singapore in April as part of their plan to expand from Japan to other countries along the Pacific Rim.

Their plan to use Japan as a gateway to exporting is similar to Heidi Miller's strategy. Miller is president of Heidi's Frogen Yozurt Shoppes, Inc., of Laguna Hills, Calif., south of Los Angeles. The firm—its name misspelled as a promotion technique—has a hundred frozen-yogurt shops (seven are company-owned) in five Sunbelt states and Hawaii.

Miller is riding the waves of popularity of both franchising and frozen yogurt. She says she has plans for franchising 353 shops in Japan over the next three years, and that she has received from her Japanese licensee $888,000 and a promise of 2 percent of gross revenue. In addition, Miller says she is "negotiating at least six more master franchising programs in other countries."

With Miller, it can be hard to tell where the hype stops. Her company—its motto is "Add a little culture to your life"—distributes a biography of her that begins: "A mature, 32-year-old woman, she has the lithe body, long blonde hair and winsome appearance of a teenager. At 100 pounds, she appears as frail as a spring flower, but she was cast as an Amazon in the MGM movie 'Ice Pirates' and is stronger than many men one half again her weight."

Miller showed up for one magazine interview in hot-pink heels, a green leather miniskirt and a glittery sweater, and she told another interviewer, "I am against pornography, but I really think sex sells."

Carole Chinman is cut from more conservative cloth. She has spent most of her life as a housewife, albeit a worldly one. She dutifully traveled the globe with her husband, an international executive for Du Pont. Her one complaint was that "my suitcase was always a mess."

Her husband is now retired to Wawaset Park, near Du Pont's Wilmington, Del., headquarters, and Chinman has started a business that does something about those suitcase messes that wrinkle a wardrobe.

Her product, called Smartpack, is a collection of 14 envelope-shaped garment carriers of various sizes that can be inserted in suitcases or carried separately. The Smartpack is made of Cordura, a water-resistant fiber—from Du Pont, of course—that looks like cotton duck and is fastened with Velcro. When folded around garments, Chinman says,

the Smartpack envelope keeps them from getting wrinkled.

Chinman has started small and fashionably, selling the Smartpack at country clubs and individual stores in Wilmington, Philadelphia and a few points north. She also has started smart, getting a trade-services company in New York to find her a Japanese distributor, and working with a friend from Geneva, where the Chinmans once lived, to arrange distribution in Europe.

Chinman's company, Small World Travelers, started production in June, 1987. Her husband, Richard, is bankrolling it and is advising how to make it grow.

Richard Chinman, after a career devoted to making industrial giant Du Pont grow through sales abroad, now is helping tiny Small World Travelers get under way via the overseas route, too.

A company that already had succeeded and has added to its success by exporting is Technical Rubber Company, the largest manufacturer of tire-repair materials in North America. The Johnstown, Ohio, company won the President's "E Award" for contributions to U.S. exporting in 1982 and the "E Star Award" last December as a repeat winner.

Technical Rubber is owned by Pauline Chambers Yost, daughter of the man who founded the company in 1939. She has been at the helm since 1972, after her first husband, who had been running the company, died.

In 1980, Yost recognized that "with distributors in every state, we needed to expand. We needed the challenge." So she instructed her executive staff to start selling overseas and instilled in them the spirit of "enough is never enough."

Today, Technical Rubber sells in 70 countries. It has an office in Tokyo, a warehouse in Osaka, a plant in New Delhi and a warehouse-office facility in Turnhout, Belgium, near Antwerp. In all, overseas sales account for 38 percent of the company's revenue.

Yost plans to travel to China soon to introduce Technical Rubber's vulcanizing process for repairing tires. Though the thought of every bicycle rider in China buying a Technical Rubber tire-repair kit may be tantalizing, the company will begin business there by selling repair supplies for the huge tires on Chinese earth-moving vehicles.

While Yost and others create markets overseas because they choose to, Jeanine Hettinga got into exporting because she had to. When she and her husband sold one business and started another in 1980, they signed an agreement with the old business' buyer that the new business would not sell in the United States.

The new business is Hettinga Equipment, a Des Moines, Iowa, manufacturer of low-pressure ejection-molding machines; they are sold to makers of plastic parts for everything from small kitchen items to large automobile panels. Jeanine Hettinga handles administration, and her husband, Siebolt Hettinga, does design and engineering.

The prosaic plastic toilet seat is an example of something made from the equipment sold by Hettinga. The machines utilize a new technology allowing them to be more versatile. They can mold textiles directly into a plastic product, for example.

Though the no-competition agreement has expired, the company still makes 70 percent of its sales overseas, mostly to Pacific Rim countries.

When Hettinga Equipment first tried to sell abroad, it aimed at Europe because Hettinga's husband was born and educated there, and they felt they both could identify best with that part of the world.

Yet they found resistance in Europe to their attempts to introduce a new technology.

One explanation for this resistance, the Hettingas believe, is German engineering pride and a reluctance in that country to accept an American alternative to their own machinery.

So they turned their attention to Japan and the rest of the Far East, where they were as surprised by the ready acceptance of their company's new technology as they were surprised by the initial European resistance.

The Hettingas are strong proponents of exporting, with Jeanine serving on the Small Business Advisory Council of the U.S. Chamber of Commerce, a District Export Council of the U.S. Department of Commerce and the Advisory Council on International Trade of the governor of Iowa. NB



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Carry-Out Consultants

By Kathleen Kerwin

Clark Balderson knew more about making bulldozer blades than about exporting them to China. So when he considered shipping his company's heavy-machinery attachments overseas, he sought outside advice. He discussed his plans with his accounting firm's China expert, who looked at Balderson's trade documents and suggested some business contacts in that country.

Balderson is president of Balderson, Inc., in Wamego, Kan. The company manufactures heavy-equipment parts such as snow plows and mining-machinery buckets. It does a lot of exporting and chalks up sales of $24 million a year. Yet, like many companies, it is not big enough to keep on its payroll all the financial experts whose advice may be needed from time to time.

"We really can't afford to have internal expertise," says Balderson, who turns to outside accountants or lawyers for advice on matters beyond his company's experience. "It's nice to have access to experts who can pretty quickly cut through the crud," he says.

Many companies find that they increasingly need financial services from outside specialists such as accountants, lawyers or consultants.

"Life is just getting a lot more complicated," says Dave Nordstrom, vice president of Nordstrom Oil Company. The firm, based in Cedar Rapids, Iowa, has expanded into fields other than petroleum marketing, and it now operates a fast-growing convenience-store chain. "For things you used to feel comfortable handling yourself, now you go out and get somebody to do it for you," he says.

Accounting firms, lawyers, government-sponsored groups and brokerage houses can help with an array of matters such as strategic planning, marketing, buying insurance, choosing health and retirement plans, tax preparation and planning, systems analysis and succession planning. They may find capital for a new company struggling with product development, or they may play matchmaker for client companies that want to acquire or be acquired.

Kathleen Kerwin, a free-lance writer based in Detroit, specializes in business topics.



PHOTO: BILL DEKAY

Norman DiCarlantonio, left, COO of Detroit Testing Laboratory, in Oak Park, Mich., finds Ernst & Whinney advisers such as Bryan Becker provide "a sounding board."

"A lot of times an entrepreneur is really great with ideas—the creative side," says Bryan Becker, a partner at Ernst & Whinney and director of the accounting firm's emerging-business services in Detroit. "Maybe he's not as good at putting his ideas into action. That's where we can help."

Sometimes a manager just needs a second opinion on a new product line or marketing approach. "They want someone to critique the process and their ultimate decision," Becker says. "They want a business adviser, a seasoned person who can say, 'Yup, I've seen it before, and you're on the right track.' "

Balderson says his accountant recently convinced him he was "throwing away too much money on development" of a new product. "I think he's right, but I didn't want to admit it." He asks his attorneys to find the unseen legal or financial obstacles in a proposed plan, to "pick the holes in it."

Many professional advisers can steer a growing business to alternative financing sources such as venture capitalists, insurance companies and pension funds. "The problem with most small businesses is accessibility to this world of deeper pockets," Becker says.

Deciding when to let an outsider handle sensitive business tasks is one of the tougher jobs a business owner faces. The Jayme Organization, a Cleveland-based advertising agency, had been run for 25 years by its founder, who "used his cronies to provide business services," says George Havens, chairman and chief executive officer. When Havens and the new management team took over 15 years ago, he says, "we decided we wanted to grow the agency more dramatically and aggressively. We decided we needed better financial services."

Calfee, Halter & Griswold, a Cleveland law firm, studied the agency and presented 10 recommendations, including increasing group life insurance, signing contracts with top managers, devising a plan to repurchase stock, recapitalizing the firm and setting up a pension plan. All the suggestions were enacted eventually.

Jayme's managers hired the accounting firm of Price Waterhouse to solve a cash-flow problem when billings grew eightfold in 12 years to $40 million but collections lagged. The accountants instituted an accelerated billing system. Havens says the accounting firm also has helped with executive retirement plans and major real-estate decisions.

Accountants, lawyers and other financial experts may advise you better than you could advise yourself on matters such as marketing, borrowing, insurance, health and retirement plans, taxes, finding a buyer or choosing your successor.

Sometimes, however, using an outside consultant is not the right approach. "We often go outside to get someone to make recommendations," says John Bender, chairman of Bender Lumber Company, a $20 million retailer in Bloomington, Ind. "But we've found that we often don't use their advice. The problem with having someone outside come in and take a look at our business is that they often only see the problems on the surface—and a lot of times their suggestions are hard to implement." Bender adds that outsiders' suggestions sometimes irritate employees. "There's a great deal of resistance to change."

Some companies try to avoid that problem by making quasi insiders of their longtime accountants, consultants or attorneys. "They've taken the time to come in and get to know a little bit about us," says Norman DiCarlantonio, chief operating officer of Detroit Testing Laboratory, in Oak Park, Mich., in referring to advisers at Ernst & Whinney. "They're good people to talk to . . . kind of a sounding board."

DiCarlantonio says the accountants have helped the 85-year-old laboratory, with annual sales of $6 million, improve quality while keeping costs down. "They have done a lot more than tell us at the end of the year whether or not we made money. They're giving us advice along the way."

When DTL was searching for a chief financial officer, Ernst & Whinney helped define the job requirements and then lined up candidates, one of whom was hired. When the lab needed new types of insurance, the accountants suggested where to find underwriters. When DTL considered acquiring another company, "we used them to look at it from a financial perspective," DiCarlantonio says.

Occasionally a company just outgrows its original support services. For years when Nordstrom Oil was principally an Iowa petroleum marketer, the company got by with an accountant to keep the books and a local lawyer to handle legal matters. But after the oil shortages of the 1970s, the company diversified. Now it employs about 130 people and brings in $20 million a year from 15 convenience stores, several retail outlets, a strip shopping mall and a hotel. Nordstrom Oil gets more help these days from local attorneys on contracts and real-estate transactions.

"A lot of times an entrepreneur is really great with ideas—the creative side. Maybe he's not as good at putting his ideas into action. That's where we can help."

—Bryan Becker, Partner, Ernst & Whinney

When the company's president, William Nordstrom, decided to make sure his estate would be divided fairly among his children, he looked farther afield for a specialist. Nordstrom chose Philip Dawson, a partner at Calfee, Halter, which specializes in estate and succession planning for family firms.

"We can show a family-business owner how he can distribute value equally among an entire brood, even though a small percentage of them are active in the family business," Dawson says. "We can also counsel them on how to leave more of the business to the next generation, as opposed to giving more to Uncle Sam."

Helping a business client is "very much a hands-on thing," says Victor Coppola, director of national emerging-business services at Coopers & Lybrand. "We're not just telling them they have a problem, but also helping them to solve it."

For instance, small-business owners choosing computers and software are often baffled by the array, Coppola says. Staff members at Coopers who have helped other clients through the same decision making may provide the right answers quickly, he adds.

Likewise, getting the most out of available government assistance—grants, loans and job-training programs—can frustrate the uninitiated, says Ernst & Whinney's Becker. "It's difficult for them to find their way through the maze of bureaucracy."

A small company that wants a financial statement to show to prospective creditors could turn to a certified public accountant. Roger Duval runs a one-man CPA business in Lathrup Village, Mich., for businesses with annual sales ranging from $50,000 to $15 million.

His clients include entrepreneurs who are smart about their businesses but hazy on financial intricacies, he says. "I deal with everything from where to put an Individual Retirement Account to where to get insurance to whether to buy equipment or lease it."

The search for business and financial services can be perilous, says Washington attorney Raymond Tim Wittig. "It's fraught with so many dangers. Does the person know what he's talking about? Am I being fairly charged?"

Wittig, a consultant to small businesses on financing, advises choosing financial services the way you would select a doctor. Look for a specialist who keeps current with the latest developments in his field, and be willing to pay for the best.

"Talk to your peers" and ask them where they found outside financial advice, says Don Berno, director of the U.S. Chamber of Commerce's Small Business Center. And don't overlook the "freebies," he adds.

The U.S. Small Business Administration (SBA) sponsors local Small Business Development Centers, often based at colleges. The staff members, many of whom are business professors, offer free advice to business people. The SBA-sponsored Service Corps of Retired Executives (SCORE) can help many local businesses. For information on either service, call (800) 368-5855.

The usefulness of these services will vary, depending on how familiar their staffers are with your particular business problem, Berno notes. For example, if you want to draw up a business plan to show your banker, these services may provide all the help you need, he says. "But if you've got a fairly sophisticated problem, you're going to have to pay for the solution." NB

Quality Works

Manufacturers and their suppliers are working together to improve their competitiveness.

By Fred Scaglione



John Vangellow's white pyramid reinforces the Rochester, N.Y., injection molder's commitment to quality. Employees sign their names to show their involvement.

PHOTO: REED HOFFMANN

Since the dawn of the 1980s, when many American industries awoke to find their very existence threatened by foreign competition, virtually all major corporations have reaffirmed their commitment to quality and have implemented some type of improvement program.

The payoff has been a dramatic rebound in the quality of U.S. products. But the industry giants have not made this effort alone. They have been joined aboard the quality bandwagon by tens of thousands of their small and midsized supplier firms. Some of these smaller firms have climbed on board willingly. Others have been dragged on by their major corporate customers. Whatever these firms' reasons for making the journey, it is clear that the story of America's quality turnaround is very much a story of its small and midsized industrial base.

Business leaders in the early 1980s turned to quality-control experts such as W. Edwards Deming and Joseph N. Juran. The experts responded with surprising, unsettling prescriptions. Management couldn't simply look to the factory floor and blame quality problems on a careless work force, they said. The fault lay with the system, and management, not workers, should be held responsible.

Moreover, they said, quality improvement should involve a corporation's whole network of suppliers. Workers can't manufacture high-quality products with low-quality materials and defective components. Firms that thought they were doing a good job in purchasing needed to think again.

The proof was in the numbers. A manufacturer whose deliveries from five component suppliers were 95 percent free of defects stood a 25 percent chance of finding a problem in the finished product, according to these experts.

Automobile manufacturers, seeing one fourth of the domestic passenger-car market shift to imports of often higher quality, were the first to act.

"All the companies [supplying the auto makers] started getting letters from Ford, GM and Chrysler saying, 'You'll improve quality or you'll no longer be suppliers,' " says Carol Schwinn, who directed the Personnel Development Institute of Jackson Community College in Jackson, Mich., in 1981.

The auto companies were demanding more than better quality, however. They were talking about a new way of doing business. The theory of quality assurance showed that many defects arose during early stages of product development. Manufacturers needed suppliers they could work with to explore new designs, materials and production techniques.

"They were letting us know that they were going to be reducing the number of suppliers but entering into much more intimate and long-term relationships with surviving suppliers," says Schwinn. "And judgments about these long-term relationships were going to be based on quality issues as well as costs."

Corporate customers also told suppliers exactly how to control quality. "They were gently, and sometimes not so gently, telling suppliers that there were...philosophies, tools and techniques that they were using and they expected the suppliers would learn how to use them as well," says Schwinn.

By adopting techniques of statistical process control (SPC), which are emphasized by consultants such as Deming, vendors would seek to eliminate defects during the production process rather than try to catch them in the completed products.

These efforts—reducing the number of suppliers, establishing closer working relationships and achieving documented control over the production process—soon became the basis for

Fred Scaglione is a New York freelance writer who specializes in business topics.

Improving quality drastically reduced costs at OTC Industrial Division of Sealed Power Corporation, an Owatonna, Minn., maker of hydraulic hand pumps.

programs of vendor certification in several industries.

Not all suppliers agreed to go along with these new proposals, however. Even among many who did go along, acceptance was not always complete. "At first, many of them considered this just another Xerox 'Flavor of the Month,' " says Bob Fletcher, manager of materials quality assurance for the copier firm, which had reduced the number of its suppliers from more than 2,000 to 350. "I knew they weren't buying it because they were only using SPC on parts they were doing for us."

One problem was that suppliers had to learn the new statistical-control techniques before they could implement them. Many large corporations tried to fill the void by providing assistance through their vendor-certification programs. Xerox, for example, began by providing three days of training for its selected suppliers.

Yet many vendors have had to supplement such corporate assistance with in-house training. "Last year we had a budget of $100,000" for training, says John Vangellow, a partner in Nylomold, a Rochester, N.Y., injection molder. He estimates that Xerox had already provided Nylomold with training resources worth $250,000 over several years.

Still other firms have had to obtain training entirely on their own, though some cannot afford as much as they need.

While it does take some training, SPC isn't a major hurdle for most small manufacturers. "The statistical tools and techniques are a piece of cake," says Schwinn. "Anyone can learn them easily." The difficult areas, she says, are "the organizational changes and management changes that are required."

Here, however, small businesses may have an advantage. "We can turn on a dime," says Stewart J. Stalnecker, Jr., of Microcircuit Engineering, a New Jersey industrial silk-screening firm. "I'm the CEO. If I have the commitment and I get the commitment of senior managers, we're on our way."

The demand for and the use of formal quality programs has spread dramatically in recent years. One survey of 5,000 purchasing managers found that more than half of them used SPC and were working toward eliminating incoming inspections.

Firms that have implemented SPC and other quality-management programs report dramatic improvements.



PHOTO: STEVE WOIT—PICTURE GROUP

Xerox, for example, says defect rates on incoming supplier shipments have dropped from as much as 20,000 parts per million (PPM) in 1980 to 400 PPM today. The company now sends 95 percent of all incoming material directly to its point of use, without any receiving inspection.

Similarly, Hewlett-Packard—which stunned the U.S. semiconductor industry in 1980 by reporting that defect rates for American-made 16K chips were six times higher than the defect rates for comparable Japanese products—has stopped its receiving-inspection program. The quality of chips is so high that inspection isn't necessary.

Improvements in quality have brought rewards. "First, it has kept us in the marketplace," says Mick Thorez, of Thorez Industries, a Jackson, Mich., manufacturer of precision castings. "Some of my competition isn't around any more because they didn't make the effort. Second, it has opened up more doors and broadened our customer base."

A major advantage for certified suppliers can be the assurance of long-term business from major customers without the need to rebid continually.

"Companies are finding out that saving 2 cents a part on a year-long contract is washed out completely by the cost of bringing a new supplier on board," says Blanton Godfrey, chairman of the Juran Institute in Wilton, Conn.

Many corporate customers are moving toward the use of target prices based on their intimate knowledge of a supplier's material costs, manufacturing processes and other information. "We've reached the point where we have an open-book relationship with many of our suppliers," says Fletcher of Xerox. "If they can meet the benchmark price, they can have the contract for the life of the part."

While the thought of giving this much information to a customer may not appeal to many firms, some feel that it results in a fair return for them and their customers. "Seventy-five percent of this information is already well known," says Vangellow, noting the data published by industry associations and trade magazines.

Moreover, quality-improvement efforts should help give vendors their own price advantage. Proponents argue that quality control will reduce a company's operating costs as it gradually eliminates scrap, paperwork, unnecessary inspections, warranty costs and field service problems. These costs of poor quality have been estimated to run from 25 percent to 33 percent of a company's sales volume.

The OTC Industrial Division of Sealed Power Corporation, in Owatonna, Minn., with annual sales of $100 million, has reduced yearly costs in these areas by $5 million, says Jerry Ensminger, quality and customer-service manager.

"It's reduced our costs long-term," says Thorez, emphasizing that quality-control efforts have kept his firm from becoming stagnant.

Major corporate customers are aware of these quality-related savings, and many suppliers are under increasing pressure to return a portion of the savings in the form of price reductions.

"We've been up-front with our suppliers," says Charles May, manager of supplier relations at Ford Motor Co. "In order to meet the worldwide competitive challenge, we've got to continuously improve in cost and quality." As a result, he says, the company is looking for supplier productivity improvements of 5 percent annually. "That's based on our working in a team concept to help find it."

Quality theorists say quality is a journey, not a destination. It's clear that the nation's small and midsized firms are not being left behind. NB

Voice Mail Keeps You In Touch

By Jon Pepper

You were waiting for a crucial call from an important customer, but you missed it because you had to leave the office to service another account. Or someone in your office misplaced a critical telephone message, costing you thousands of dollars in lost sales.

The telephone is a lifeline for business, and many small and midsized firms are desperate for more efficient and reliable ways to receive their messages. One solution that is beginning to become more affordable is voice mail, a computer-linked system for sending, receiving, storing and retrieving phone messages.

Voice mail is a $480 million industry, and it is growing at 60 percent a year. Once used almost exclusively by corporations with big budgets, voice-mail technology is filtering down to companies of more modest means. And the results for those who have taken the plunge into voice mail are encouraging.

"I used to call in at least two to three times a day when I was on the road to make sure everything was all right," says Tom Lewis, co-owner of Advanced Financial Group, a Hartford financial-services firm. "Now I can call in to the voice-mail system, and if there is no message in my mailbox, I know that everything is all right; it really takes the pressure off the receptionist." He says that "voice mail is one of the best business tools that we have."

Voice mail can be activated through either a stand-alone piece of equipment or a plug-in board for a personal computer that links the PC to a telephone. Unlike conventional, tape-based answering machines, voice-mail devices use computer technology to store and forward messages, converting the spoken word into a digitized format that can be played back.

Since they can be expanded as a company grows, voice-mail systems can usually handle the majority of calls into a business, leaving the switchboard operator free to handle other tasks.

Built-in computer intelligence is the primary advantage of voice mail over answering machines, which simply record and play back messages. In addition to allowing callers to retrieve messages, for instance, voice-mail systems can be programed by the user to call numbers at scheduled times and deliver customized messages. Voice mail also lets the user decide when to be interrupted by a call.

Another benefit of voice mail is that it ensures confidentiality. Users have private mailboxes that can be unlocked only by punching in the correct access code from any push-button telephone in the world.

Moreover, messages left in these electronic mailboxes can be more reliable than those taken by a receptionist. According to a study by International Resource Development, a market-research firm in Norwalk, Conn., 90 percent of telephone message slips contain incomplete or inaccurate information. An AT&T study found that only 9 percent of written phone messages are complete.

Although voice mail was once rare at smaller companies, its extensive use in large corporations is helping to make the technology more accepted. It has become commonplace in business for one's phone call to be answered with a request such as "at the end of this message, please dial the extension of the party you are looking for or hold on for operator assistance." It is almost as much a part of daily business life as use of the computer, and voice-mail equipment could challenge the answering machine as a business tool.

Top-of-the-line dedicated systems from companies like Rolm, Voice Mail International, AT&T and Xerox have

Free-lancer Jon Pepper writes frequently on technology from Sunderland, Mass.

Voice Mail Systems, Prices, Vendors



PHOTO: DICK DURRANCE—WOODFIN CAMP, INC.

Boards For Personal Computers

Watson; $199. Natural Microsystems Corporation, (800) 692-8766.

The Complete Answering Machine; $349. The Complete PC, (800) 634-5558.

VoiceLine; $1,695, or $2,100 with training. Voice Computing, Inc., (608) 221-0001.

PC Dial/Log; $495. Votrax, Inc., (800) 521-1350.

Stand-Alone Systems

Voice Genie; $7,000 and up. Genesis Electronics, (800) 222-0056 or 4634.

Voice Server; $9,000. Digital Sound Corporation, (800) 372-5465.

Telecenter Voice Mail; $11,500 to $17,500. Votan, (415) 490-7600.

Voice Memo; $32,000 to $80,000. Centagram Corporation, (408) 942-3500.

CallXpress; $16,000 to $85,000. Applied Voice Technologies, (800) 443-0806.

VMail 210 and 210EX; $5,600 to $10,000. Brooktrout Technology, Inc., (617) 235-3026.

Did you get the message? If you didn't, consider voice mail, a computer-based business tool for making sure the word goes out—and comes back.

extensive capabilities and features, but they can cost hundreds of thousands of dollars. In addition, their complexity requires a full-time system administrator, which can be well beyond the means of many companies.

Still, an on-site voice-mail system not only eliminates phone tag but also guarantees that messages are delivered in full, says Bernard Kinsey, vice president and general manager of Xerox's voice-systems division. "It means that users have the ability to complete a thought and transfer information, and know that the person has gotten their message; it's a real aid in communicating."

Xerox also offers a less expensive way for companies to use voice mail. Kinsey calls it the service-bureau concept. Xerox has a nationwide service bureau that links subscribers in 10 cities, so that in those areas users can call a local number and gain access to anyone else on the network.

Service users pay a flat monthly fee—usually $20 to $40 per mailbox—as well as a usage fee. Tom Brett, president of the Hartford franchise of the Headquarters Companies, said that the service-bureau concept "ties a lot of things together for users."

Brett's company offers voice mail and other office services to users, most of whom are involved in outside sales. "They not only get everything they would from a good telephone-answering service, they also get retrieval capability at any time of the day or night," says Brett.

The least expensive way for many smaller businesses to get into voice mail is to use any one of a number of boards that plug into a personal computer and add voice-mail technology. Products on the market include Watson, The Complete Answering Machine and PC Dial/Log.

For around $350, these products offer varying degrees of options as well as easy maintenance. According to Joel Borden, product marketing manager for The Complete PC, which makes The Complete Answering Machine, add-in voice-mail boards for PCs are low in cost, don't require a system administrator, and can offer some sophisticated features.

For example, The Complete Answering Machine runs in background mode so that the computer is not tied up when the voice-mail system is in operation. It can also store and forward messages, and it can maintain private, password-protected mailboxes, with the amount of message time limited only by the amount of hard-disk space available.

Steven Ames Brown, a San Francisco lawyer who uses the product, is enthusiastic about the benefits. "When you consider how inexpensive the add-in boards are, it makes no sense for a small operation to go to a dedicated voice-mail system," Brown says.

He also thinks that on some counts voice mail is better than phone-answering services. "You usually have to pay extra to leave an 'if' message" with an answering service, he says, "and it's not always good practice to leave confidential messages."

Brown now has a private line for clients to use when they call in; and the voice-mail system asks callers to state their requests and the time when they would like to receive a reply. "This way I can be prepared when I call people back, so it saves me time, and I can also leave private messages for various clients," Brown explains.

Best bets for smaller firms interested in voice mail would be service bureaus, PC-based arrangements or lower-cost dedicated systems. Larger companies will probably want to investigate the high-end systems.

If you are not yet sold on using voice mail, you may want to keep an eye on your local telephone company. Last March, the government ruled that the Baby Bells will be allowed to sell such transmission services to the public as electronic mail, voice mail and videotex. Affordable voice mail from the phone company is about a year away, says Eric Arnum, an analyst with International Resource Development.

Whether you buy now or wait, the bottom line on voice mail, Brown maintains, is positive. "I've increased my income, decreased my expenses, and I'm so '21st-century' that I have raised my rates and no one squawked," he reports. For many other companies, the same benefits are around the corner. NB

"I had a million dollar idea at 37,000 feet, and lost it when we landed."



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Direct Line

Helpful tips on starting a fruitful enterprise, selling to Uncle Sam and getting your masterpiece published.

The Kiwi To Success

I am developing and growing kiwi fruit here in the Gulf Coast area. I would appreciate any information you can give me to help make my new business a sound and profitable venture.
W.M., Pensacola, Fla.

The United Fresh Fruit and Vegetable Association in Alexandria, Va., suggests you call the following kiwi growers for firsthand advice about running a kiwi-growing business:

David Freistadt, Calavo Growers, Los Angeles; (213) 587-0398. Myles Thurston, Sun World International, Coachella, Calif.; (619) 398-6181.

The association also suggests you contact the Agricultural Cooperative Extension Service in California—(714) 787-3321—and in Florida—(904) 392-0502.

Stamp Of Approval

How do you obtain Underwriters Laboratory approval for an imported appliance? Must the appliance have UL approval before it can be sold in the United States?
C.C., Columbia, S.C.

Your appliance may or may not require UL approval to be sold in the United States. That depends on the product and where you sell it. Some states and local governments require UL approval for certain types of products.

As for obtaining UL approval, your appliance would be put through a testing program designed to ensure that it meets appropriate engineering standards. Send UL a description of your product, and UL will send you brochures describing the appropriate testing process. You would be billed for the testing. The cost would be based on the type of testing program involved. UL's address is 333 Pfingsten Road, Northbrook, Ill. 60062. Or you may call (312) 272-8800 and ask for a client adviser at extension 2396.

Government Contracts

Please advise me on books and articles relating to steps to take to bid on federal government contracts and how to participate in the set-aside program for minority contractors.
A.L., Great Neck, N.Y.



ILLUSTRATION: WILLIAM COULTER

You'll find all you need to know in a brochure called "Books About Selling To The U.S. Government." It's free from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The Small Business Administration also has information and programs tailored to help small enterprises get their fair share of the $180 billion the federal government spends each year on goods and services. Call the SBA Business Development Center in Albany, N.Y., for assistance, (518) 472-6300. The SBA also can provide you with information on the 8(a) program, which helps socially and economically disadvantaged small-business owners obtain government contracts.

To Your Business' Health

Where can I find information about starting a bottled-water business? I also need to know where to find minority-business assistance and where to purchase plastic bottles.
R.C., Holly Hill, Fla.

For information on the bottled-water industry, contact the International Bottled Water Association, 113 North Henry Street, Alexandria, Va. 22314; (703) 683-5213. Someone will send you the association's introductory guide to starting and marketing a bottled-water business.

Information on minority-business financial assistance can be obtained from the Minority Small Business-Capital Ownership Development office of the Small Business Administration, Imperial Building, 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-5688.

The Packaging Institute International, at 20 Summer Street, Stamford, Conn. 06901, can refer you to manufacturers of plastic bottles.

Finding Publishers

I am writing my first book and would like to know the proper procedure for getting it published. What legalities are involved between the author and publisher?
T.H., Brattleboro, Vt.

You could start by examining library reference books that list publishers and agents, and offer tips on getting published. A comprehensive directory of U.S. publishers is *Literary Market Place*. Also try *Writer's Market: Where to Sell What You Write*.

Generally, for nonfiction, you prepare a proposal that includes a chapter outline, a sample chapter and a summary that describes the book and tells why it's important. Send this along with published samples of your shorter work to several agents, and hope one will agree to represent your book. An agent who sells your proposal to a publisher gets a percentage of your earnings from the book. If you do not get an agent, send your proposal to companies that might be interested in publishing your type of book.

If your work is fiction, agents and publishers will want to see the completed book, not just the proposal.

The legalities in the publishing of your book should be spelled out in any contract you receive from a publisher. Before you sign a contract, you should have it examined by your literary agent and a lawyer versed in publishing. NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.



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Personal Management

For Your Tax File

By Paul N. Strassels

Deducting Business Travel: How Far Can You Go?

Those who travel on business are entitled to deduct the ordinary and necessary expenses associated with that travel, as a legitimate cost of doing business. That includes the full price of hotel rooms and taxis, 80 percent of the cost of your meals and entertainment, and more. It does not matter whether your firm is big or small, incorporated, a partnership or a sole proprietorship. The beauty of the tax law is that it makes no distinction based on size or form among businesses eligible to deduct business travel and related expenses.

Go ahead. Plan an annual business meeting for your board of directors and officers at a posh resort. It can be local or cross-country. The cost is deductible even if you and your spouse are the only employees of the firm. You don't even need to be incorporated. In fact, you may want to meet semiannually or even quarterly so you can regularly review how well your firm is meeting its financial and sales goals.

When you set up these meetings, plan to meet six to eight hours a day. In advance, write up an agenda detailing the ground you intend to cover, and stick to it.

There is, however, no requirement that you stay cooped up in a stuffy hotel room 24 hours a day. You are permitted to adjourn the meeting for an afternoon round of golf or a tennis match without placing your deduction in jeopardy.

Recently, the Tax Court upheld the validity and necessity of out-of-state board meetings and conferences, noting that in the case before the court they served bona fide business purposes that the business owners were able to document. The court did not consider the expenses extravagant even though first-class transportation and accommodations were used.



Paul N. Strassels, president of Money Matters, Inc., Burke, Va., is a tax-law specialist and financial adviser.



PHOTO: PETE SALZUTOS—THE STOCK MARKET

So far, Congress, the courts and the IRS will still let your business hold meetings at a resort—and you can even take time off for golf.

In this case, the expenses of the spouses were not deductible, but only because their attendance served no particular business purpose; the court found that the spouses' attendance was purely social. Advance planning can easily eliminate that problem, however. For example, when your spouse is an officer, director or paid employee of the firm, the expenses associated with travel are deductible.

Taking Some Of The Fun Out Of Foreign Travel

Procrastinators who have not been able, for whatever reason, to complete their federal income-tax returns by April 15 have long enjoyed a nifty loophole.

As mentioned in the April *Nation's Business*, individuals were given until June 15 to file their returns and pay their taxes when they could prove that they were out of the country on income-tax day. Although this regulation was on the books for decades, the IRS decided two weeks before this year's filing deadline to rewrite it. Now the rule reads that you can get the extra two months to file your return when you are out of the country on April 15, but only when you have been abroad for at least two consecutive weeks, including April 15.

Payroll Taxes: Accuracy Pays

The IRS has become quite good at matching Form 941 quarterly payroll-tax reports against withheld income and Social Security tax deposits made at federal depositaries across the country. It's a simple computer match. When the computer identifies a discrepancy, out goes the letter telling the employer to pay the difference between what the 941 shows is owed and what the deposits total. In years past, the IRS was terribly slow in comparing these records. Now it takes a few days. What's more, the IRS is usually correct in these matters. When it comes to payroll-tax withholding, deposits and reports, be as accurate as possible. Otherwise, you will find yourself subject to penalties and interest charges. NB

Holding business meetings at resorts ... the perils and promise of investing in gold ... what to do for aching feet.

It's Your Money

By Ray Brady

King Midas, Call Your Office

"A gold mine," said Mark Twain, "is a hole in the ground with a liar standing next to it." Strong words, but gold does seem to have the power to mesmerize; and now the spotlight will probably soon shine on it again, as a hedge against possible inflation. The giant investment firm Merrill Lynch recently reminded its customers that the unemployment rate for adult men now stands at 4.9 percent. The last time the rate was that low, the firm went on, inflation picked up within six months.

So should you be thinking about buying some gold?

Whenever I want to know something about the yellow metal, I call Tom Wolfe. Wolfe is now a consultant in Washington, but for years he was the director of gold and silver operations for the U.S. Treasury. Over the years, I think I must have interviewed every one of the prominent gold bugs; to my mind, not one of them is more sensible about gold than Tom Wolfe.

So I put the question right to him: If inflation is heating up, should investors start thinking about buying a few ingots? Says Wolfe: "It takes quite a bit of heat for the gold market to really take off." In other words, rampant inflation would be needed? "You don't get really frantic buying or selling," agrees Wolfe, "unless the markets think gold is going to $900 an ounce or it's going to drop to $200 an ounce."

Right now, certainly, the gold markets don't look especially hot. The shiny stuff has been trading at anywhere from $420 to $490 an ounce, and it doesn't seem likely to break out of that range. There has been buying by some of the Far Eastern countries, like Korea and Taiwan, but they have been buying, according to Wolfe, in order to make their trade balances with the United States look better.

About a year ago, a lot of investors rushed into gold-mining stocks, and many of their supporters argue that profits in the industry probably will rise by about 30 percent this year; producers like Freeport McMoran Gold and Amax Gold more than doubled their earnings in 1987.

But there's a problem: Any movement within that gold price range—down to $420 an ounce or up to $490—could bring violent swings in the prices of the mining stocks, swings that could be wider than those in the price of the metal itself. Also, many mutual funds that deal exclusively in the gold stocks were forced to sell shares early this year, a trend that could continue and push stock prices still lower.

Even though these are lackluster times for gold, Tom Wolfe has one final word: It never hurts, he says, to have a little gold in your portfolio, maybe 5 to 10 percent—just in case. NB



Ray Brady is the business correspondent for CBS News.



PHOTO JOE OUTLAND—UNIPHOTO

Should you start picking up a few gold ingots as a hedge against inflation? Or would you just be buying some snazzy doorstops?

A New Way To Split A Vacation Property

Clever developers have come up with a novel way for you to own only a piece of a vacation hideaway for only a piece of the full price—and still have privacy, owner's rights and a nice tax write-off. It's called "quarter-sharing."

As one of four owners, you get a deed of trust to 25 percent of a condo, and the right to use your vacation home—or rent the property—13 weeks of the year. Your share is broken into two-week blocks spaced about six weeks apart, spreading your time over the seasons. That makes it easy for you to spend at least 15 days a year at your "second home," and thus deduct your share of the mortgage interest on your 1040.

You'll find quarter-sharing has major advantages over traditional time shares, which have suffered in recent years from high-pressure sales tactics and unmet expectations.

Traditional time shares are usually split among 25 owners, restricting your use of the property to just two weeks a year. And with so many owners involved, maintenance can be a major problem—especially if some owners default.

Quarter-sharing "offers the best of all worlds," says Henry A. Berliner, president of Second National Federal Savings Bank, based in Annapolis, Md. The bank was the first to offer vacation-home mortgages split four ways. Second National, through its service corporation, is a codeveloper of the Quarters in Ocean City, Md. Buyers snapped up shares costing $40,000 to $50,000 when they went on sale last year.

The quarter-sharing concept is catching on in other parts of the country as well, including mountain resorts in Jackson Hole, Wyo., and Breckenridge, Colo. You'll also find an active quarter-share market in Hilton Head, S.C.

Some quarter-sharing projects, like the Quarters, belong to Resort Condominiums International, a computerized exchange company that allows quarter-share owners to trade their weeks in Ocean City, say, for vacations in other desirable locations worldwide.

—Jack Wynn

Corny, but true: It's hard to get a kick out of life when your dogs are barking. But there are ways to make your feet toe the line.

To Your Health

By Norman Brown

The Agony Of The Feet

After colds and toothaches, sore feet are the most common ailment among adults today, *Podiatry Journal* claims. But "with the right care and exercise, you can avoid 90 percent of the foot problems that most doctors see in their practice," says Dr. John Waller, orthopedic surgeon at New York's Lenox Hill Hospital.

Once a week, trim your toenails straight across, about level with the tip of the toe. Clean under each nail with an orange stick (the kind used to push back cuticles).

When you bathe or shower, use a piece of soap-smeared pumice to remove excess callus, but don't overdo it—a moderate amount of callus is protective.

Before putting on stockings, make sure that your feet are dry, and sprinkle a little powder between your toes. This will help prevent odor and fungal infections.

To refresh hot, tired feet, try soaking them in cool water for five minutes. At night, smooth on moisturizing cream to guard against cracking.

Many men could take a lesson from women by buying several pairs of shoes and changing them daily. Always try on both shoes—no one has a matching pair of feet. The most important fit-point is the front of the shoe—you should have enough room to wriggle your toes. (High heels and cowboy boots are the worst offenders.) And buy shoes late in the day: Your feet swell as much as half a size between morning and evening.

"Certainly one way to ease strain on the feet is to get weight down to normal," says Dr. Elizabeth Roberts, professor at New York College of Podiatric Medicine. "Even 10 extra pounds put an excessive added stress on your feet."

Feet need exercise, just as other parts of the body do. Waller suggests walking whenever possible to give your feet a workout. In the office, kick off your shoes and stretch both feet out in front of you.

Norman Brown, who lives in Providence, R.I., writes frequently on medical topics.



PHOTO: TING CHAO

Even if you pamper your feet, they can come down with an ailment; probably the most common is athlete's foot. Often you can cure it by keeping the affected area dry and using a nonprescription fungicide. If that doesn't work, you may have a bacterial infection or psoriasis; ask your doctor to take a culture.

Tender calluses and corns (a corn is just a small, cone-shaped callus) hurt because they are pressing down on the skin and the nerves underneath. They are more common in women, mainly because so many women's shoes are insanely designed.

A few strokes of an emery board a few times a week will reduce a hard corn. To get rid of a tender callus, use the pumice procedure. Medicated drops or pads can also help—but never attempt bathroom surgery with a razor blade.

Plantar warts, often mistaken for corns, are additional sources of misery. They may disappear by themselves, but they are contagious and can spread, so it may pay to have a professional remove them with dry ice, acid or an electric needle.

Most ingrown toenails are preventable—all you have to do is not cut your nails too short. But sometimes the condition recurs because of a bone spur or foot injury. In such a case, surgery may be the only answer.

Likewise, only surgery can permanently fix bunions, hammertoes and some other problems, such as contracted tendons and flat feet. Both podiatrists and orthopedists are trained to do foot surgery, which sometimes involves breaking and reshaping the bones of the foot. Their fees are about the same, and the procedures can be done under local or general anesthesia, in an office or at a hospital.

Flat feet, says Waller, "are not bad feet. Many great athletes have them." Nevertheless, flat feet can cause ill-defined lower-back pain, as can the opposite condition, very high arches. A simple solution to both problems: flexible arch supports, the kind you buy at the drugstore. NB

Once Around The Park

Habitual runners, joggers, fitness walkers: When you next go to Manhattan on business, don't overlook the pleasure you'll gain from beginning or ending your workday with a sortie into Central Park.

New York City has set aside a lane of the 840-acre park's gently rolling roads for those traveling by foot or bicycle (though I've seen locals negotiating park streets on skateboards and—no kidding—pogo sticks).

Make one 6-mile loop around the park perimeter, and you'll see Gotham in a nutshell—from the posh residences, shops and hotels near 59th Street, to the Metropolitan Museum of Art on Fifth Avenue, to the tenements marking the beginning of Harlem on 110th Street, to the trendy Tavern on the Green restaurant on Central Park West (near the finish line of the New York City Marathon).

If your schedule or your physical condition rules out the 6-mile loop, take a 1½-mile lap or two on the path encircling the reservoir (it's roughly between 85th and 97th Streets), probably the most run-on turf this side of Wimbledon.

There's lots, lots more for runners in the park, but that's for you to discover. Park maps are available at most midtown hotels and at offices of the New York Road Runners Club at 9 East 89th Street.

—Albert G. Holzinger

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Rehire Fired Air-Traffic Controllers?

There is a shortage of air-traffic controllers, and some members of Congress advocate filling openings with former controllers fired by President Reagan during an illegal 1981 strike. Supporters contend former controllers have been punished sufficiently and could return to work more quickly than new recruits could be trained. Opponents point out that after six years away from the job, former controllers also would need extensive training. Opponents also contend rehiring illegal strikers would be unfair to controllers who stayed on the job. Should the fired controllers be rehired?

2. Should RICO Suits Be Restricted?

Some members of Congress want to amend a law enacted nearly 20 years ago to inhibit organized criminal activities. They contend that too many legitimate businesses involved in commercial disputes such as breach-of-contract allegations are sued under civil provisions of the Racketeer Influenced and Corrupt Organizations Act. Businesses losing these suits, they point out, often suffer irreparable damage to their reputations and finances. Opponents argue that civil suits under RICO effectively curb what they see as widespread fraud by U.S. firms. Should RICO suits be restricted to organized criminal activities?

3. Restore Deduction On Student-Loan Interest?

Under the tax-reform law passed by Congress in 1986, interest on consumer loans—including higher-education loans—is being phased out. On 1987 returns, 65 percent of this interest was deductible; on 1991 returns, none will be. Congress supported the phase-out on grounds it would encourage saving rather than borrowing to finance major purchases, including college tuition. Phase-out opponents contend that most American parents find it difficult if not impossible to save enough to educate their children. Should Congress restore the tax deductibility of student-loan interest?

Verdicts On April Poll

Here is how readers responded to the questions in the April issue.

	Yes	No	Undecided
Should taxpayers bear more costs of AIDS?	21%	70%	9%
Should workers be tested for AIDS?	63%	27%	10%
Would an employee with AIDS hurt sales?	67%	18%	15%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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LESSONS OF LEADERSHIP

Making Ethics Come Alive

The U.S. Chamber's new chairman will urge American business to keep its conduct ethical and its consciousness global.

By Robert T. Gray



PHOTO: T. MICHAEL KEZA

As 1988-89 chairman of the board of the U.S. Chamber of Commerce, William S. Kanaga will be business' top spokesman in Washington.

The public accounting profession was particularly concerned when reports of financial misdeeds became daily fare in newspaper headlines and prime-time broadcast news a few years ago.

Many of the abuses spotlighted were traced to fraudulent financial reporting by companies or individuals. Leaders in the accounting field saw those developments as a potential threat to the integrity of the entire financial reporting system, in which their profession plays such a key role.

The result was the formation of the National Commission on Fraudulent Financial Reporting, a private-sector initiative sponsored by the top organizations in the accounting field.

The six-member panel was given the assignment of "identifying causal factors that can lead to fraudulent financial reporting and steps to reduce its incidence." After nearly two years of work, the commission produced detailed recommendations that stemmed largely from a basic conclusion:

"The tone set by top management—the corporate environment or culture within which financial reporting occurs—is the most important factor contributing to the integrity of the financial reporting process. Notwithstanding an impressive set of written rules and procedures, if the tone set by management is lax, fraudulent financial reporting is most likely to occur."

One of the members of the commission was William S. Kanaga, a former chairman of Arthur Young & Company, former chairman of the board of the American Institute of Certified Public Accountants and a highly regarded figure in public accounting. He represented the independent auditing profession on the panel, known as the Treadway Commission after its chairman, James C. Treadway, Jr., executive vice president and general counsel of Paine Webber Incorporated.

Kanaga's interest in ethical behavior in the business community goes beyond his work on the commission—he has been one of the most outspoken business leaders on the subject.

Now, he says, business ethics will be one of the two main themes he will pursue as chairman of the U.S. Chamber of Commerce. He became the top elected official of the world's largest business federation at its recent annual meeting, after serving as vice chairman for the previous year.

"The vast majority of business people are honest," Kanaga says. "The few who are not create problems for all of business. It is up to each business leader to set a conspicuous example of integrity and to make certain that their subordinates know that exemplary behavior will be demanded and required at every level of the enterprise. . . . The key is the CEO, with strong backing from the board of directors, determined to establish and enforce strict ethical behavior throughout the organization.

"I have a deep concern with the lack of impact in our daily business life of the deep roots our country has inherited from its Judeo-Christian beginnings. What I see is a breakdown in the home and in family training—in community life and in many of the positive aspects of peer pressure. Our young men and women entering the business world are fed with a large dosage of cynicism about how to succeed. That cynicism comes not alone from disclosures in the media and from some blasé peers ahead of them, but also from the teachings they receive on, and the influences of, the university campus."

The Treadway Commission, Kanaga reports, "found in the cases they examined a breakdown in fundamentals—an inability, lack of desire, or perhaps simply the lack of instinctive reaction to make a morally correct decision when selecting from a number of options."

He hopes to carry the message that "mere obedience to rules and laws is not enough. Legality must be a floor, not a ceiling. If management conveys a sense of corner-cutting or minimal conformity, the employees will embrace that standard across the board."

Kanaga's other theme, he says, can be summed up in two words: Think World. He plans to tell business people throughout the country that U.S. companies must become far more active in global markets: "I want to beat the drums for the key to the future—a competitive America. There is a great market out there."

Unfortunately, he adds, too many

Making Ethics Come Alive

Although retired as chairman of Arthur Young, Kanaga remains chairman of its advisory board. He meets here with William Gladstone, Arthur Young's CEO.



PHOTO: T. MICHAEL KEZA

people think that the solution to the U.S. trade deficit lies in protectionism and other forms of "insularity," such as limiting foreign investment in this country.

Kanaga would like American businesses to plunge into export markets the same way the Japanese did. Citing Japan's "economic miracle," which raised that country from the devastation of World War II to its present status as a major world power, Kanaga asks: "Who would have believed the Japanese would become the master marketers that they are?"

The key to their success was basic, he adds: "They found out what their customers wanted, and they filled that need." On the other hand, he says, "A lot of American business people feel comfortable here and less comfortable outside of the United States. But they have to get over that discomfort. There is too much going on in the world market for us not to be part of it."

At the same time, Kanaga emphasizes that it is not free trade when foreign nations view their business dealings with America as "a one-way street." Such countries, he says, are feeding U.S. protectionist forces and posing a danger to the very system of free trade on which they are dependent for survival.

An important element in strengthening America's competitiveness, Kanaga says, is for Congress to refrain from imposing additional costs on business through a higher minimum wage, mandated health benefits and other burdens at a time when American firms are once again becoming competitive in world markets.

Kanaga became concerned about both ethics and trade, in somewhat different ways, during his long career in public accounting. "You can't be in the public accounting field very long," he says, "without seeing the agony that some people put themselves through ... because they made the wrong decision when they were faced with ethical and moral challenges."

The problem affects businesses of all sizes, Kanaga adds. He says the Treadway Commission's findings "suggest that few frauds start with an overt, intentional act to mislead or deceive; i.e., few CEOs start out with the idea that they will commit fraud. Rather, the fraud is often the product of a combustible mixture—apathy of a board of directors, unrealistic profit pressure, weak controls and bonus-heavy compensation plans."

Kanaga's international outlook on trade was shaped during the many years he spent traveling throughout the world with Arthur Young. His major accomplishment as chairman of the firm was the complete internationalization of the company. Although Arthur Young had had overseas offices for most of its existence, they had been headed by Americans in many cases.

Kanaga took the view that the company should not maintain "Anglo-Saxon outposts," and he oversaw implementation of the process by which citizens of the host countries ran the offices there. "We are now looked upon as a national firm in almost every country," he says.

Kanaga's role as chairman of a top international accounting firm was not one that could have been anticipated from his first steps toward a career.

He earned a degree in metallurgical engineering at the University of Kansas in 1947, but, uncertain about a career choice, he earned another degree, in business administration, at Babson College in Massachusetts. He returned to Kansas with two degrees and no job. A family friend who was a partner in the Kansas City office of Arthur Young suggested that Kanaga join that firm.

He did, but not with the idea of staying: "I was told that as long as I didn't know what I wanted to do, Arthur Young would expose me to a lot of different industries, so I could pick one I liked." As it turned out, he liked the one he was in—public accounting.

That was in 1949, and, with the exception of a four-year stint with an insurance brokerage in New York, Kanaga has been with the company ever since. He returned to Arthur Young in 1958 and by 1969 was the managing partner in the New York office. He became firm managing partner in 1972 and chairman in 1977. In the latter job, he was chairman of a worldwide firm with 23,000 employees, including nearly 18,000 accounting professionals, in 351 cities in 66 countries.

Under his leadership, the company expanded from its traditional areas of specialization—accounting, auditing, taxes, management and bankruptcy—to include industry specialists knowledgeable about such business fields as high technology, financial services and health care.

He reached Arthur Young's mandatory retirement age of 60 in 1985. Although he stepped down from the chairmanship of the company, he certainly cannot be said to have retired.

Kanaga has continued at Arthur Young as chairman of the advisory board, has served on the Treadway Commission, was chairman this past year of his profession's centennial celebration and, as chairman of the U.S. Chamber, will be a principal spokesman for the American business community for the next year.

He will consider himself as having fulfilled that role successfully, Kanaga says, if he can achieve at least some progress toward his principal goals: "To make codes of conduct come alive and to make our business people more world-conscious." NB

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Child-Care Options



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Dramatic changes are occurring in the American work force. Single heads of households and families with two wage earners are becoming more common. Employers must assess and accommodate the diverse and evolving needs of employees who are balancing both family and work responsibilities. Flexible and responsive personnel policies can best address workers' varied needs.

Employers should consider the following voluntary private-sector options: a dependent-care option in flexible benefit plans, consortia to provide child care, vouchers or subsidies for child care, liberalized leave policies, part-time work, home-based work, job sharing, information and referral services on local child-care services, flextime and on-site day care.

Although a shortage of adequate and affordable child care may present problems in some areas of the country, the federal government should resist the temptation to mandate specific employee benefits, to regulate previously unregulated industries, to subsidize or compete unfairly with private-sector day-care centers, or to impose a costly and monolithic federal child-care program.

Contact your senators and representatives to urge them to limit the federal government's role to addressing the liability-insurance crisis as a factor in day-care shortages, providing incentives to make child care more affordable and available, and identifying programs and demonstration projects. Tell lawmakers that any appropriate regulation of child-care services should be a function of state and local authorities.

Hiking The Minimum Wage



PHOTO: W. EASTEP—THE STOCK MARKET

Legislation to increase the federal minimum wage by as much as 51 percent is moving through Congress, despite conclusive evidence that previous increases have reduced jobs and boosted inflation.

The last minimum-wage hike resulted in a loss of thousands of jobs, as employers hit by the new financial burden eliminated jobs or canceled plans for new openings. This will happen again if the wage rises. The resulting cutbacks would affect lower-paid jobs and would particularly hurt many teenagers looking for their first jobs.

A recent study sponsored by the Minimum Wage Coalition to Save Jobs produced estimates by states of lost jobs and lost job opportunities resulting from a minimum-wage increase of 39 percent. It concluded that the job losses would not be limited to one region but would occur nationwide. The study found that if the minimum wage rises to $4.65, losses would be 57,111 in Florida, for example, 16,877 in Mississippi and 37,162 in North Carolina. Losses would be higher if the minimum wage is raised to $5.05.

Contact your senators to urge them to oppose legislation raising the minimum wage and to support, instead, ways to stimulate the creation of jobs.

Long-Term Health Care



PHOTO: MARK FARRIS—FOLIO, INC.

Congress may soon consider a proposal that would create another federal entitlement program—one for long-term health care provided at home. This program, which would be put in the Medicare system, could cost $20 billion to $35 billion in the first three years alone. It would be financed by removing the cap on the wage base subject to the Medicare payroll tax.

Removal of the $45,000 wage-base cap would cause massive tax increases for employers and employees alike.

Moreover, the proposal lacks provisions for establishing the structure needed to deliver such health care.

Meeting the financial requirements for such health care for the elderly is a crucial concern, especially as the elderly population increases. However, the private sector must be encouraged to meet these needs; the solution is not a new federal program.

Urge your senators and representatives to reject this new entitlement program and, instead, to support alternatives that would make it easier for workers to purchase coverage for long-term care and receive it as part of an employer-sponsored benefit.

COMMENTARY

Editorials

Exempting members of Congress from laws binding on all other citizens conflicts with the concept of democracy.

Congress Should Listen To The Message It's Getting From Its Own Mail Room

Imagine how quickly federal regulators would come down on a company whose employees were required to put in 70-hour weeks—without overtime—in unsafe working conditions.

It happens, however, that the employer in this case is exempt from the many laws enacted to protect workers from such treatment. That employer is the United States Congress, and the workplace involved is the congressional mail room.

Recent disclosures of conditions in the mail room, which is staffed largely by members of minority groups, have called attention to the broader issue of Congress' exempting itself and its members from the laws and regulations it routinely applies to all other sectors of American society.

Laws that Congress has enacted on labor-management relations and other aspects of collective bargaining, job safety, environmental protection and equal opportunity all contain escape hatches for Congress itself. Those laws do not apply to employees in the offices and support facilities on Capitol Hill.

In defending such exemptions, Congress says it cannot be in the position of being policed by regulatory agencies that might be looking for an opportunity to retaliate because of budget cuts or other adverse actions by the lawmakers.

That argument doesn't wash. Think of the ramifications at all levels of government from a policy that assumes that legislators should be immune from the laws they write because the people who enforce them cannot be trusted to be objective.

As a result of the embarrassing publicity about the now-famous mail room, some members of Congress are rethinking the broad exemption they enjoy from regulations they impose on others.

Basic fairness requires such a change. A policy of exempting members of Congress from laws binding on all other citizens conflicts sharply with the very concept of democracy.



PHOTO: TERRY ASHE—GAMMA LIAISON

Conditions in the congressional mail room on Capitol Hill make it a workplace that Congress' own regulations would not allow in American business. Congress frequently exempts itself from the rules it places on other sectors of American society.

Don't Let Anti-Mob Statute Become A Mobster Itself

Nearly 20 years ago Congress passed a law with an imposing title, the Racketeer Influenced and Corrupt Organizations Act, and a noble goal, curtailing organized crime and protecting honest business owners from mob infiltration, competition and fraud.

RICO's civil provisions handed law-enforcement organizations powerful weapons for battling gangsters, including power to win crippling triple-damage awards and attorneys' fees when suing organized criminal enterprises.

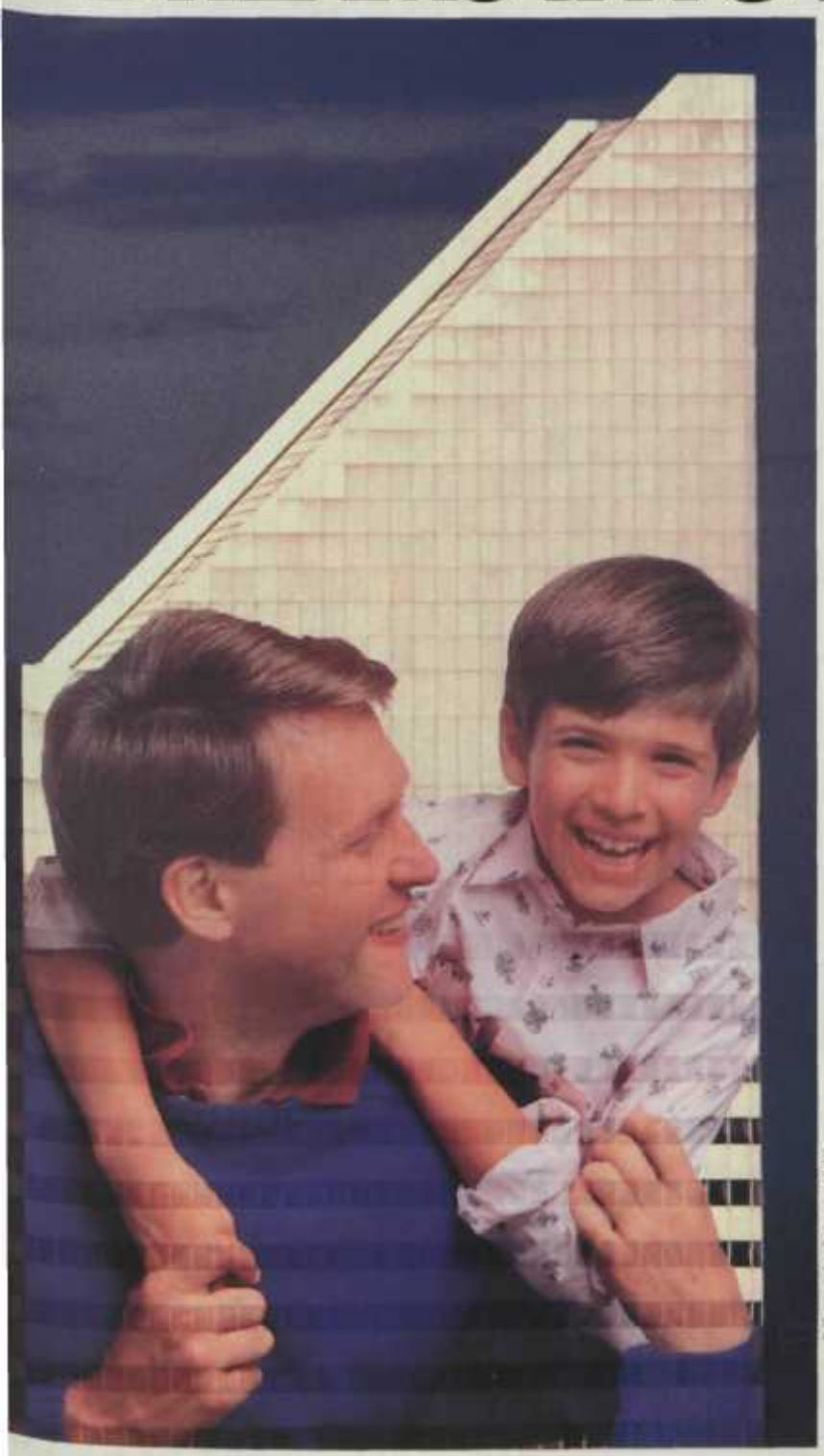
But recent congressional testimony and Department of Justice and American Bar Association reports reveal RICO isn't working as Congress intended. In fact, according to a new ABA report, only 9 percent of civil RICO cases are brought against firms allegedly engaged in activities typical of organized crime. Remaining civil RICO actions are brought against legitimate businesses involved in commonplace commercial disputes.

Such reports are troubling and suggest the need for a number of changes:

- If RICO isn't proving effective in stemming mob harassment of honest businesses, Congress ought to enact a statute that can do this.
- If the reputations of businesses accused of breach-of-contract or other mundane commercial transgressions are being tarnished by reports that their owners are being sued under anti-racketeering laws, RICO ought to be amended to preclude this.
- If plaintiffs' lawyers can use the statute, as they apparently can, to win triple-damage awards in cases where simple damages are appropriate, this also should be changed.

RICO was intended to eliminate gangsters—not to become a mobster itself. NB

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